

# SECURITIES AND EXCHANGE COMMISSION

## FORM N14EL24

Registration statements of open end investment companies (business combinations)

Filing Date: **1995-07-28**  
SEC Accession No. **0000856517-95-000015**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### **MONEY MARKET OBLIGATIONS TRUST /NEW/**

CIK: **856517** | Fiscal Year End: **0731**

Type: **N14EL24** | Act: **33** | File No.: **033-61395** | Film No.: **95557010**

#### Mailing Address

*FEDERATED INVESTORS  
TOWER  
PITTSBURG PA 15222-3779*

#### Business Address

*FEDERATED INVESTORS  
TWR  
PITTSBURGH PA 15222  
4122882614*

1933 Act File No. 33-  
1940 Act File No. 811-5950

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-14

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

MONEY MARKET OBLIGATIONS TRUST  
(Exact Name of Registrant as Specified in Charter)

(412) 288-1900  
(Area Code and Telephone Number)

Federated Investors Tower  
Pittsburgh, Pennsylvania 15222-3779  
(Address of Principal Executive Offices)

JOHN W. MCGONIGLE, ESQUIRE  
Federated Investors Tower  
Pittsburgh, Pennsylvania 15222-3779

Copy to:

Matthew G. Maloney, Esquire  
Dickstein, Shapiro & Morin, L.L.P.  
2101 L. Street, N.W.  
Washington, D.C. 20037  
(Name and Address of Agent for Service)

It is proposed that this filing will become effective thirty days  
after it is filed pursuant to Rule 488.  
(Approximate Date of Proposed Public Offering)

Registrant has filed with the Securities and Exchange Commission a  
declaration pursuant to Rule 24f-2 under the Investment Company Act of 1940 that  
it elects to register an indefinite amount of securities under the Securities  
Act of 1933 during the most recent fiscal year ended July 31, 1994. Therefore,  
a filing fee will not be submitted because of the Registrant's reliance on Rule  
24f-2.

CROSS-REFERENCE SHEET  
Pursuant to Item 1(a) of Form N-14 Showing Location in  
Prospectus of Information Required by Form N-14

Item of Part A of Form N-14 and Caption Proxy Prospectus	Caption or Location in Combined Statement and
1. Beginning of Registration Statement and Outside Front Cover Page of Combined Proxy Statement and Prospectus.....	Cross-Reference Sheet; Cover Page
2. Beginning and Outside Back Cover Page of Combined Proxy Statement and Prospectus.....	Table of Contents
3. Synopsis Information and Risk Factors.	Summary; Comparison of the Funds
4. Information About the Transaction.....	Information About the Proposed Reorganization
5. Information About the Registrant.....	Additional Information About MMOT and Pacific Horizon
6. Information About the Company Being Acquired.....	Additional Information About MMOT

and Pacific Horizon

7. Voting Information.....	Information Relating to Voting Matters
8. Interest of Certain Persons and Experts.....	Not Applicable
9. Additional Information Required for Reoffering by Persons Deemed to be Underwriters.....	Not Applicable
Item of Part B of Form N-14 and Caption	Caption or Location in Statement of Additional Information
10. Cover Page .....	Cover Page
11. Table of Contents .....	Table of Contents
12. Additional Information About the Registrant.....	Combined Statement of Additional Information of Prime Obligations Fund, dated November 30, 1994
13. Additional Information About the Company Being Acquired.....	Statement of Additional Information of Prime Value Fund, dated July 1, 1995
14. Financial Statements.....	Annual Report of Prime Obligations Fund; Annual Report of Prime Value Fund

PRELIMINARY COPY

Prime Value Fund of  
Pacific Horizon Funds, Inc.

Dear Shareholder:

A special meeting of the shareholders of the Prime Value Fund of Pacific Horizon Funds, Inc. (the "Prime Value Fund") has been called for \_\_\_\_\_, 1995 at 10:30 a.m., Eastern time. Formal notice of the meeting appears on the next page, followed by materials regarding the meeting.

As you are aware, many of the shareholders of the Prime Value Fund are institutional trust clients of BankAmerica Corporation. The Board of Directors of the Prime Value Fund considered the upcoming sale of BankAmerica Corporation's institutional trust business and its likely effect on the Prime Value Fund. After considering the various alternatives available to address concerns raised by the anticipated loss of the Prime Value Fund's primary market which would result from such sale, your Board unanimously concluded that the proposed reorganization of the Prime Value Fund into a parallel portfolio of Federated Investor's Money Market Obligations Trust, is in the best interests of the Prime Value Fund and its shareholders. Shareholders will be asked at the special meeting to consider and vote upon the proposed reorganization. Please see the enclosed proxy/registration statement for detailed information regarding the proposed reorganization and a comparison of the funds.

THE BOARD OF DIRECTORS OF THE FUND UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSED REORGANIZATION.

In order to avoid delays or resolicitation, please sign and return the enclosed proxy card.

Sincerely,

Thomas M. Collins  
Chairman and President

PRELIMINARY COPY

PACIFIC HORIZON FUNDS, INC.  
125 West 55th Street  
New York, New York 10019

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
OF THE PRIME VALUE FUND  
To be held on \_\_\_\_\_, 1995

To the Shareholders of the  
Prime Value Fund, an  
Investment Portfolio Offered by  
Pacific Horizon Funds, Inc.

NOTICE IS HEREBY GIVEN THAT a Special Meeting of Shareholders of the PRIME VALUE FUND, an investment portfolio offered by Pacific Horizon Funds, Inc. ("Pacific Horizon"), will be held at Pacific Horizon's offices, 125 West 55th Street, New York, New York 10019 on \_\_\_\_\_, 1995 at 10:30 a.m., Eastern time (the "Meeting"), for the following purposes:

ITEM 1. To approve or disapprove an Agreement and Plan of Reorganization by and between Pacific Horizon and Money Market Obligations Trust ("MMOT") and the transactions contemplated thereby, including (1) the transfer of all of the assets and known liabilities of Pacific Horizon's Prime Value Fund ("Prime Value Fund") to MMOT's Prime Obligations Fund ("Prime Obligations Fund") in exchange for Institutional Shares of the Prime Obligations Fund which shall thereafter be distributed by Pacific Horizon to the holders of Pacific Horizon shares and Horizon shares of the Prime Value Fund; and (2) the amendment of Pacific Horizon's Charter to cancel all of the issued and outstanding shares of the Prime Value Fund in connection with the liquidation of the Prime Value Fund.

ITEM 2. To transact such other business as may properly come before the Meeting or any adjournment thereof.

Your directors recommend that you vote in favor of Item 1.

The proposed reorganization and related matters are described in the attached Combined Proxy Statement and Prospectus. A copy of the Agreement and Plan of Reorganization is attached as Appendix A thereto.

Shareholders of record as of the close of business on \_\_\_\_\_, 1995 are entitled to notice of, and to vote at, the Meeting or any adjournment thereof.

SHAREHOLDERS ARE REQUESTED TO EXECUTE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE THE ACCOMPANYING PROXY CARD, WHICH IS BEING SOLICITED BY THE BOARD OF DIRECTORS OF PACIFIC HORIZON. THIS IS IMPORTANT TO ENSURE A QUORUM AT THE MEETING. PROXIES MAY BE REVOKED AT ANY TIME BEFORE THEY ARE EXERCISED BY SUBMITTING TO PACIFIC HORIZON A WRITTEN NOTICE OF REVOCATION OR A SUBSEQUENTLY EXECUTED PROXY OR BY ATTENDING THE MEETING AND ELECTING TO VOTE IN PERSON.

By the Order of the  
Board of Directors

W. Bruce McConnel, III  
Secretary

\_\_\_\_\_, 1995  
PRELIMINARY COPY

PACIFIC HORIZON FUNDS, INC.  
125 West 55th Street, New York, New York 10019  
Phone: (800) 332-3863

MONEY MARKET OBLIGATIONS TRUST  
Federated Investors Tower  
Pittsburgh, Pennsylvania 15222  
Phone: (800) 235-4669

COMBINED PROXY STATEMENT AND PROSPECTUS  
Dated \_\_\_\_\_, 1995

This Combined Proxy Statement and Prospectus is being furnished in connection with the solicitation of proxies by the Board of Directors of Pacific Horizon Funds, Inc. ("Pacific Horizon") in connection with the Special Meeting of Shareholders of the Prime Value Fund (the "Prime Value Fund") to be held at 10:30 a.m. Eastern time on \_\_\_\_\_, 1995 (the "Meeting") at Pacific Horizon's offices, 125 W. 55th Street, New York, New York 10019, at which shareholders of the Prime Value Fund of Pacific Horizon will be asked to approve a proposed Agreement and Plan of Reorganization dated as of \_\_\_\_\_, 1995 (the "Reorganization Agreement") by and between Pacific Horizon and Money Market Obligations Trust ("MMOT") and the transactions contemplated thereby (the "Reorganization").

Pacific Horizon and MMOT are open-end, series type management investment companies. The Board of Directors of Pacific Horizon, including the non-

interested Directors at the meeting, has determined that it is in the best interests of Pacific Horizon and the shareholders of the Prime Value Fund to be reorganized into MMOT's Prime Obligations Fund (the "Prime Obligations Fund").

The Reorganization Agreement provides that all of the assets and known liabilities of the Prime Value Fund will be transferred to the Prime Obligations Fund. In exchange for the transfer of these assets, and known liabilities, MMOT will simultaneously issue a number of full and fractional shares of stock in the Prime Obligations Fund of its Institutional Shares class (the "Institutional Shares") equal in number to the number of full and fractional Pacific Horizon shares and Horizon shares (the "Pacific Horizon Shares" and "Horizon Shares," respectively) representing interests in the Prime Value Fund outstanding immediately prior to the time the Reorganization becomes effective (the "Effective Time of the Reorganization"), provided that at the Effective Time of the Reorganization the price per Pacific Horizon Share and Horizon Share of the Prime Value Fund and the price per Institutional Share of the Prime Obligations Fund for purposes of sales and redemptions is \$1.00 based on the amortized cost valuation procedures that have been adopted by Pacific Horizon and MMOT.

The Prime Value Fund will then make a liquidating distribution to its shareholders of the Prime Obligations Fund's Institutional Shares received from MMOT, so that holders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund at the Effective Time of the Reorganization will receive a number of full and fractional Institutional Shares of the Prime Obligations Fund having a value equal to the value of the shareholder's shares in the Prime Value Fund immediately before the Effective Time of the Reorganization. Holders of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund will receive shares of the Prime Obligations Fund without the imposition of any fees or other charges. The Reorganization Agreement further provides that following the liquidation of the Prime Value Fund all of the issued and outstanding shares of the Prime Value Fund will be cancelled.

This Combined Proxy Statement and Prospectus sets forth concisely the information that a shareholder of the Prime Value Fund should know before voting on the Reorganization Agreement (and the transactions contemplated thereby), and should be retained for future reference. A Statement of Additional Information relating to this Combined Proxy Statement and Prospectus dated \_\_\_\_\_, 1995, is incorporated herein by reference and is available upon oral or written request and at no charge from Pacific Horizon at the address or telephone number shown above. The Reorganization Agreement is attached to this Combined Proxy Statement and Prospectus as Appendix A and is incorporated herein by reference.

The Prospectus relating to the Institutional Shares of the Prime Obligations Fund of MMOT dated November 30, 1994, which describes the investment objective, policies, and operations of the Institutional Shares of the Prime Obligations Fund, accompanies this Combined Proxy Statement and Prospectus. Additional information is set forth in the Statement of Additional Information of the Prime Obligations Fund dated November 30, 1994, in this Combined Proxy Statement and Prospectus, and in Pacific Horizon's Prospectus and Statement of Additional Information dated July 1, 1995. Each of these documents is on file with the Securities and Exchange Commission (the "SEC"), and is available without charge upon oral or written request by writing or calling Pacific Horizon or MMOT at the respective addresses or telephone numbers shown above on the cover page of this Combined Proxy Statement and Prospectus. The information contained in each of these Prospectuses and Statements of Additional Information is incorporated herein by reference. Copies of MMOT's and Pacific Horizon's Annual Reports and MMOT's most recent Semi-Annual Report for the Prime Value Fund and Prime Obligations Fund are available upon request and without charge to any shareholder of the Prime Value Fund by writing or calling Pacific Horizon or MMOT at the respective addresses or telephone numbers indicated above.

This Combined Proxy Statement and Prospectus constitutes the proxy statement of Pacific Horizon for the Meeting and the Prospectus for Institutional Shares of MMOT's Prime Obligations Fund, which shares have been registered with the SEC and are to be issued in connection with the Reorganization.

This Combined Proxy Statement and Prospectus is expected to first be sent to shareholders of the Prime Value Fund on or about \_\_\_\_\_, 1995. Shareholders of Pacific Horizon may redeem their shares of the Prime Value Fund at any time prior to the Effective Time of the Reorganization.

Shares of the Prime Value Fund and Prime Obligations Fund (collectively, the "Funds") are not bank deposits or obligations of, or guaranteed or endorsed by, Bank of America National Trust and Savings Association or any of its affiliates and are not federally insured by, guaranteed by, obligations of, or otherwise supported by the U.S. Government, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Each Fund seeks to maintain its net asset value per share at \$1.00 for purposes of purchases and redemptions, although there can be no assurance that it will be able to do so on a continuous basis. Investments in the Funds involve investment risk, including the possible loss of principal amount invested.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS COMBINED PROXY STATEMENT AND PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS COMBINED PROXY STATEMENT AND PROSPECTUS AND IN THE MATERIALS EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY PACIFIC HORIZON OR MMOT.  
Pacific Horizon Funds, Inc.  
Money Market Obligations Trust  
Combined Proxy Statement and Prospectus

Table of Contents  
Page

SUMMARY

Proposed Reorganization  
Reasons for Reorganization  
Federal Income Tax Consequences  
Comparison of the Investment Objectives of the Funds  
Risk Factors  
Comparative Fee Table  
Investment Advisers and Advisory Fees  
Purchase Procedures  
Redemption Procedures  
Exchange Procedures  
Dividends, Distributions and Pricing

INFORMATION RELATING TO THE PROPOSED REORGANIZATION

Description of the Reorganization Agreement  
Board Considerations  
Federal Income Tax Consequences.  
Capitalization.  
Performance

COMPARISON OF THE FUNDS

Investment Objectives and Policies -  
Prime Value Fund and Prime Obligations Fund  
Fundamental Investment Limitations of the  
Prime Value Fund and the Prime Obligations Fund  
Other Information

INFORMATION RELATING TO VOTING MATTERS

General Information  
Shareholder and Board Approval  
Quorum  
Appraisal Rights  
Principal Shareholders.

ADDITIONAL INFORMATION ABOUT MMOT AND PACIFIC HORIZON

FINANCIAL STATEMENTS AND EXPERTS

OTHER BUSINESS

LITIGATION

NOTICE TO BANKS, BROKER-DEALERS, VOTING DIRECTORS  
AND THEIR NOMINEES

SHAREHOLDER INQUIRIES

APPENDIX A - AGREEMENT AND PLAN OF REORGANIZATION

SUMMARY

Proposed Reorganization. Based upon their evaluations of the relevant information presented to them, and in light of their fiduciary duties under Federal and state law, Pacific Horizon's Board of Directors and MMOT's Board of Trustees, including all of the non-interested members of each Board present at the meetings, have determined that the proposed Reorganization is in the best interests of the shareholders of Pacific Horizon and MMOT, respectively. Pacific Horizon's Board recommends the approval of the Reorganization Agreement by the shareholders of the Prime Value Fund at the Meeting.

Subject to shareholder approval, the Reorganization Agreement provides for:  
(a) the acquisition by the Prime Obligations Fund of all of the assets, and the assumption by the Prime Obligations Fund of the known liabilities of the Prime Value Fund in exchange for Institutional Shares of the Prime Obligations Fund;  
(b) the distribution of the Institutional Shares of the Prime Obligations Fund to the holders of Pacific Horizon Shares and Horizon Shares in liquidation of the Prime Value Fund; and (c) the amendment of Pacific Horizon's Charter to cancel all of the issued and outstanding shares of the Prime Value Fund.

As a result of the proposed Reorganization, each holder of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund will become a holder of Institutional Shares of the Prime Obligations Fund and will hold, immediately after the Effective Time of the Reorganization, the same number of Institutional Shares of the Prime Obligations Fund as the number of Pacific Horizon Shares and Horizon Shares the shareholder held in the Prime Value Fund immediately before the Effective Time of the Reorganization.

See "Information Relating to the Proposed Reorganization -- Description of the Reorganization Agreement" for further information.

Reasons for Reorganization. In light of certain potential benefits and other factors, the Board of Directors of Pacific Horizon, including the non-interested Directors, has determined that it is in the best interests of Pacific Horizon, and of the Prime Value Fund's shareholders, to reorganize into the Prime Obligations Fund of MMOT. The Board of Directors considered, among other things, as described more fully below under "Information Relating to the Proposed Reorganization -- Board Considerations," the similarity of the investment objectives and policies of the Prime Value Fund with those of the Prime Obligations Fund, the relative performance and expense ratios, and the tax-free nature of the exchange, as well as the fact that all expenses of the Reorganization would be borne by Bank of America National Trust and Savings Association ("Bank of America").

Similarly, the Board of Directors of MMOT, in approving the Reorganization, determined that it would be advantageous for MMOT, and specifically for the Prime Obligations Fund and its shareholders, to acquire the assets and liabilities of the Prime Value Fund.

Federal Income Tax Consequences. As a condition to the Reorganization, Pacific Horizon and MMOT will receive an opinion of counsel that the Reorganization will be considered a tax-free "reorganization" under applicable provisions of the Internal Revenue Code so that no gain or loss will be recognized by either Pacific Horizon or MMOT or their shareholders. The tax cost basis of the Institutional Shares of Prime Obligations Fund received by Pacific Horizon shareholders will be the same as the tax cost basis of their shares in the Pacific Horizon Shares and Horizon Shares.

Comparison of the Investment Objectives of the Funds. The investment objectives of Prime Value Fund and Prime Obligations Fund are similar and are each described in the Pacific Horizon and MMOT Prospectuses dated July 1, 1995, and November 30, 1994, respectively. The Prime Value Fund and Prime Obligations Fund are each a money market fund that seeks to maintain a net asset value of \$1.00 per share. There can be no guarantee that the Funds will achieve their objective or that they will maintain a net asset value of \$1.00 per share.

Risk Factors. Because of the similarities of the investment objectives and policies between the Prime Value Fund and Prime Obligations Fund, an investment in either the Prime Value Fund or the Prime Obligations Fund involves investment risks that are similar but different in certain respects. Investment risks involved in investing in the Prime Value Fund and the Prime Obligations Fund, in general, are those typically associated with investing in a portfolio of money market instruments.

Comparative Fee Table. The following table sets forth: (i) the current fees and expenses of the Pacific Horizon Shares and Horizon Shares of the Prime Value Fund as of February 28, 1995, as restated for the Pacific Horizon Shares to reflect current fees; and (ii) the fees and expenses of the Institutional Shares of the Prime Obligations Fund based on expenses expected during the fiscal year ended July 31, 1995. Hypothetical examples based on the table are shown following the table.

Comparative Fee Table

<TABLE>  
<CAPTION>

	Prime Value Fund Pacific Horizon Shares	Prime Value Fund Horizon Shares	Estimated Prime Obligations Fund Institutional Shares
<S>	<C>	<C>	<C>
ANNUAL FUND OPERATING EXPENSES (as a percentage of average daily net assets)			
Management Fees (after waivers)	0.04%(1)	0.04%(2)	0.07%(3)
All Other Expenses (after waivers)	0.15%(1)	0.15%(2)	0.13%(3)
Shareholder Services Fee (after waivers)	0.00%(1)	---%(2)	---%(3)
Other Expenses	0.15%(1)	0.15%(2)	0.13%(3)
Total Fund Operating Expenses (after waivers)	0.19%(1)	0.19%(2)	0.20%(3)

- (1) Management Fees consist of an investment advisory fee and an administration fee, each fee payable at a maximum annual rate of 0.10% of the Prime Value Fund's net assets, and a special management services fee payable at the annual rate of 0.32% of the Prime Value Fund's average net assets. The investment adviser and administrator may voluntarily waive a portion of their respective fees and may voluntarily reimburse expenses from time to time. This voluntary waiver and reimbursement may be modified or terminated at any time. Absent such fee waivers and/or expense reimbursements, it is estimated that the total operating expenses for Pacific Horizon Shares of the Prime Value Fund would be 0.66%.
- (2) Management Fees consist of an investment advisory fee and an administration fee, each payable at a maximum annual rate of 0.10% of the Prime Value Fund's net assets. The investment adviser and administrator may voluntarily waive a portion of their respective fees and may voluntarily reimburse expenses from time to time. This voluntary waiver and reimbursement may be modified or terminated at any time. Absent such waivers and/or reimbursements, it is estimated that the total operating expenses of the Horizon Shares of the Prime Value Fund would be 0.34%.
- (3) The management fee has been reduced to reflect the voluntary waiver of a portion of the management fee. The investment adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.20% and the maximum shareholder services fee is 0.25%. The Total Institutional Shares Operating Expenses in the table above are based on expenses expected during the fiscal year ending July 31, 1995. The Total Institutional Shares Operating Expenses were 0.20% for the fiscal year ended July 31, 1994, and would have been 0.33% absent the voluntary waiver of a portion of the management fee. Absent the Prime Value Fund, the total Institutional Shares Operating Expenses would have been 0.34% absent the voluntary waiver of a portion of the management fee.

Example: The following table illustrates the expenses on a \$1,000 investment based on the fees and expenses stated in the above Comparative Fee Table, assuming (1) a 5% annual return and (2) redemption at the end of each time period.

	1 Year	3 Years	5 Years	10 Years
Prime Value Fund (Pacific Horizon Shares)	\$2	\$6	\$11	\$24
Prime Value Fund (Horizon Shares)	\$2	\$6	\$11	\$24
Estimated/Existing Prime Obligations Fund (Institutional Shares)	\$2	\$6	\$11	\$26

The purpose of the Example and Table is to assist investors in understanding the various costs and expenses of investing in shares of the Funds. The example above should not be considered a representation of past or future expenses of the Funds. Actual expenses in the Example and Table may vary from year to year and may be higher or lower than those shown above.

Investment Advisers and Advisory Fees. Bank of America, 555 California Street, San Francisco, California 94104, serves as investment adviser to the Prime Value Fund. Bank of America is a subsidiary of BankAmerica Corporation, a registered bank holding company. Federated Management, Federated Investors Tower, Pittsburgh, Pennsylvania 15222, serves as investment adviser to the Prime Obligations Fund. Federated Management ("Federated"), a Delaware business trust, is a registered investment adviser under the Investment Advisers Act of 1940.

For investment advisory services rendered to the Prime Value Fund, Bank of America is entitled to receive a fee accrued daily and paid monthly, at the following annual rates: 0.10% of the first \$7 billion of the Prime Value Fund's net assets, plus 0.09% of the next \$3 billion of the Prime Value Fund's net assets, plus 0.08% of the Prime Value Fund's net assets over \$10 billion.

For investment advisory services rendered to the Prime Obligations Fund, Federated Management is entitled to receive a fee equal to 0.20 of 1% of the Prime Obligations Fund's average daily net assets.

Purchase Procedures. Pacific Horizon Shares and Horizon Shares of the Prime Value Fund are sold without a sales charge. Pacific Horizon Shares of the Prime Value Fund may be purchased directly by mail or by wire from Pacific Horizon's distributor, by clients of Bank of America through their qualified trust and agency accounts or by clients of certain institutions such as banks or



broker-dealers ("Service Organizations") without a charge imposed by the Prime Value Fund, although Bank of America and Service Organizations may charge a fee for providing administrative services in connection with investments in shares of the Prime Value Fund. The minimum initial investment in Pacific Horizon Shares of the Prime Value Fund is \$500, except for purchases through Bank of America's trust and agency accounts or through a Service Organization whose clients have made aggregate minimum purchases of \$1,000,000, in which event the minimum initial investment is \$100. The minimum subsequent investment in Pacific Horizon Shares of the Prime Value Fund is \$50, except for investments arising from automatic investment transactions on behalf of Bank of America's trust and agency accounts, as to which there is no minimum. Horizon Shares of the Prime Value Fund may be ordered directly through Pacific Horizon's transfer agents or through broker-dealers. The minimum initial investment requirement for Horizon Shares of the Prime Value Fund is \$500,000, and there is no minimum subsequent investment requirement. Payment for shares may be made only in federal funds or other funds immediately available to the transfer agents.

Purchase orders for Pacific Horizon Shares of the Prime Value Fund which are in proper form are effected on a day on which both the Prime Value Fund's custodian and the New York Stock Exchange (the "Exchange") are open for business (a "PH Business Day") at the net asset value per share next determined after receipt by Pacific Horizon's transfer agent at its Kansas City office of both an order and federal funds. Purchases of Pacific Horizon Shares will not be effected until payments made in other than federal funds are converted to federal funds, which is ordinarily within two PH Business Days of receipt. Purchase orders for Pacific Horizon Shares effected through automatic investment transactions on behalf of Bank of America's trust and agency accounts that are received by Bank of America before 12:00 noon Pacific Time are effected as of 4:00 p.m. Eastern Time on the same day. Orders for Horizon Shares received by Pacific Horizon's transfer agent before 12:00 noon Eastern time on a PH Business Day will be executed at such time on that day if payment is received by 4:00 p.m. Eastern time on such PH Business Day. Orders for Horizon Shares of the Prime Value Fund received after 12:00 noon Pacific time on a PH Business Day, and orders for which payment has not been received by 4:00 p.m. Eastern time, will not be accepted.

Institutional Shares of the Prime Obligations Fund are also sold without a sales charge and may be purchased by wire or by mail to Federated Services Company. The minimum initial investment for Institutional Shares of the Prime Obligations Fund is \$25,000. Eligibility for investment in the Prime Obligations Fund is contingent upon an investor accumulating and maintaining a minimum aggregate investment of \$200,000,000 in those mutual funds which are distributed by Federated Securities Corp. or are advised by or administered by investment advisers or administrators affiliated with Federal Securities Corp. ("Federated Funds"). Prime Value Fund shareholders who become shareholders of the Prime Obligations Fund as a result of the Reorganization will be exempt from the \$200,000,000 investment eligibility requirement.

Federal Reserve wire orders for Institutional Shares of the Prime Obligations Fund must be received before 3:00 p.m. Eastern time. Orders by wire for Institutional Shares are considered received immediately. Payment for Institutional Shares by federal funds must be received before 3:00 p.m. Eastern time that day. Mail orders for Institutional Shares are considered received when payment by check is converted into federal funds, which is normally the next business day after the check is received.

Redemption Procedures. Shareholders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund may redeem all or any part of the value of their accounts. Shareholders of Pacific Horizon Shares may redeem their shares by written request, by TeleTrade or by wire. Shareholders of Horizon Shares may redeem their shares by telephone or by terminal access. Redemptions of Pacific Horizon Shares and Horizon Shares are effected at the net asset value per share next determined after receipt of the redemption request by the transfer agent (or transfer agents with respect to Horizon Shares). Proceeds for Pacific Horizon Shares redeemed by teletrade ordinarily will be on deposit in the shareholder's account at a domestic financial institution which is an Automated Clearing House member bank two PH Business Days after receipt of the redemption request, unless the shareholder has requested redemption proceeds be sent by check. A check for redemption proceeds will be sent only to the registered owner(s) and only to the address of record. Proceeds for Pacific Horizon Shares redeemed by wire normally will be wired in federal funds to the commercial bank specified by the shareholder on his account application. Wire redemption proceeds must be in an amount of at least \$1,000.

The Prime Value Fund will make payment for all Pacific Horizon Shares redeemed after receipt by the transfer agent of a request in proper form, except as provided by the rules of the SEC. If the Pacific Horizon Shares to be redeemed have been purchased by check or TeleTrade, Pacific Horizon will, upon clearance of the purchase check or TeleTrade payment, mail the redemption proceeds within seven PH Business Days. Where redemption is requested other than by mail, Pacific Horizon Shares purchased by check or by TeleTrade will not be redeemed for a period of seven PH Business Days after their purchase. This procedure does not apply to situations where the Prime Value Fund receives payment in cash or immediately available funds for the purchase of Pacific Horizon Shares. During the period prior to the time the Pacific Horizon Shares

are redeemed, dividends on such shares will accrue and be payable, and a shareholder will be entitled to exercise all other rights of beneficial ownership. Payment for redeemed Horizon Shares for which a redemption order is received by the transfer agents before 12:00 noon Eastern time on a PH Business Day is normally made in federal funds wired to the redeeming shareholder's account on the same PH Business Day. Payment for redeemed Horizon Shares for which a redemption order is received by the transfer agents after 12:00 noon Eastern time on a PH Business Day is normally made in federal funds wired to the redeeming shareholder's account on the next PH Business Day following redemption. Pacific Horizon Shares and Horizon Shares for which certificates have been issued may not be redeemed unless the certificates have been submitted to the transfer agents and endorsed for transfer. The Prime Value Fund reserves the right to redeem Pacific Horizon Shares and Horizon Shares in any account at their net asset value if the value of the account as a result of redemptions is less than \$500 and \$500,000, respectively.

Shareholders of the Prime Obligations Fund may redeem all or any part of the value of their accounts. Redemption may be requested by mail or by telephone and are effected at the net asset value next determined after receipt of the redemption request by the Prime Obligations Fund. A check for the proceeds of redeemed shares is normally mailed within one business day, but in no event more than seven days, after receipt of a properly written redemption request. If a redemption request by telephone is received before 3:00 p.m. Eastern time, the proceeds will be wired the same day to the shareholder's bank account at a domestic commercial bank which is a member of the Federal Reserve System, and those shares redeemed will not be entitled to that day's dividend. A daily dividend will be paid on shares redeemed if the redemption request is received after 3:00 p.m. Eastern time, but the proceeds will not be wired until the following business day. The Prime Obligations Fund may redeem shares in any account and pay the proceeds to the shareholder if the account balance falls below a required minimum value of \$25,000, or the aggregate investment in Federated Funds falls below the required minimum of \$200,000,000 to be maintained from and after twelve months from account opening (which Prime Value Fund shareholders will be exempted from), due to shareholder redemptions.

Exchange Procedures. Shareholders of Pacific Horizon Shares may exchange those shares for like Shares of another fund of Pacific Horizon, or like shares of any investment portfolio of Time Horizon Funds (an open-end investment company managed by an affiliate of Bank of America) after it has commenced operations provided that such other shares may be legally sold in the state of the investor's residence. When Prime Value Fund shares are exchanged for shares of another portfolio in Pacific Horizon which are sold with a sales load, the applicable sales load, if any, will be deducted. The Pacific Horizon shares that are exchanged must have a current value of at least \$500 and, in establishing a new account through use of an exchange, the shares being exchanged must have a value at least equal to the minimum initial investment required by the particular portfolio in which the exchange is being made. Pacific Horizon reserves the right to reject any exchange request and the exchange privilege may be modified or terminated at any time. At least 60 days' notice will be given to shareholders of any material modification or termination except where notice is not required under the regulations of the SEC. Horizon Shares of the Prime Value Fund and Institutional Shares of the Prime Obligations Fund do not have an exchange privilege.

Dividends, Distributions and Pricing. Dividends on Pacific Horizon Shares and Horizon Shares of the Prime Value Fund and Institutional Shares of the Prime Obligations Fund are declared daily and paid monthly. Pacific Horizon Shares and Horizon Shares of the Prime Value Fund begin accruing dividends on the day the purchase order is executed and continue to accrue dividends through and including the day before the redemption order for the shares is executed. Institutional Shares of the Prime Obligations Fund purchased by wire before 3:00 p.m. Eastern time begin accruing dividends that day. Institutional Shares of the Prime Obligations Fund purchased by check begin earning dividends the day after the check is converted into federal funds. Except as noted in "Redemption Procedures," dividends are paid up to and including the day that a redemption request is processed.

Although the Prime Obligations Fund and the Prime Value Fund do not expect to realize net long-term capital gains, any such capital gains as may be realized will be distributed no more than twice a year (after reduction for any available loss carry-forwards with respect to the Prime Value Fund.) The treatment of dividends and capital gains distributions received by shareholders of Institutional Shares of the Prime Obligations Fund and by shareholders of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund is, for federal income tax purposes, substantially the same. See also "Federal Income Tax Consequences" below.

The Prime Value Fund and the Prime Obligations Fund each use the amortized cost method of valuing its shares and each anticipates that its net asset value per share for purchase and redemption purposes will remain constant at \$1.00 per share, although there can be no assurance that any Fund will be able to do so on a continuous basis.

The terms and conditions under which the Reorganization may be consummated are set forth in the Reorganization Agreement. Significant provisions of the Reorganization Agreement are summarized below; however, this summary is qualified in its entirety by reference to the Reorganization Agreement, a copy of which is attached as Appendix A to this Combined Proxy Statement and Prospectus and which is incorporated herein by reference.

Description of the Reorganization Agreement. The Reorganization Agreement provides that at the Effective Time of the Reorganization, the assets and known liabilities of the Prime Value Fund will be transferred to and assumed by the Prime Obligations Fund. In exchange for the transfer of the assets of, and the assumption of the known liabilities of the Prime Value Fund, MMOT will issue at the Effective Time of the Reorganization full and fractional Institutional Shares of the Prime Obligations Fund equal in number to the number of full and fractional Pacific Horizon Shares and Horizon Shares of the Prime Value Fund, as determined at the Valuation Time (as defined below) specified in the Reorganization Agreement. The Reorganization Agreement provides that the Prime Value Fund will declare a dividend or dividends prior to the Effective Time of the Reorganization which, together with all previous dividends, will have the effect of distributing to the shareholders of the Prime Value Fund all undistributed net investment income earned and net capital gains realized up to and including the Effective Time of the Reorganization.

Following the transfer of assets to, and the assumption of the known liabilities of the Prime Value Fund by the Prime Obligations Fund, Pacific Horizon will distribute the Institutional Shares of the Prime Obligations Fund received from MMOT to the holders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund in liquidation of the Prime Value Fund. Each holder of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund at the Effective Time of the Reorganization will receive an amount of Institutional Shares of equivalent net asset value, plus the right to receive any dividends or distributions which were declared before the Effective Time of the Reorganization but that remained unpaid at that time with respect to the Pacific Horizon Shares and Horizon Shares of the Prime Value Fund. Following the liquidation of the Prime Value Fund, the outstanding Pacific Horizon Shares and Horizon Shares of the Prime Value Fund (designated, respectively, Class P and Class P, Special Series 2 Common Stock in Pacific Horizon's charter) will be cancelled on the books of Pacific Horizon and become unissued shares. Articles of Amendment further effecting the cancellation will be filed thereafter with the Maryland State Department of Assessments and Taxation.

The stock transfer books of the Prime Value Fund will be permanently closed at the Effective Time of the Reorganization. If any shares of the Prime Value Fund are represented by a share certificate, the certificate must be surrendered to MMOT's transfer agent for cancellation, or verification of such share certificate's loss and indemnification with respect to such loss must be established, before the Prime Obligations Fund shares issued to the shareholder in the Reorganization can be redeemed.

Pursuant to the Reorganization Agreement, if the per share net asset value of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund exceeds the per share net asset value of Institutional Shares of the Prime Obligations Fund at 4:00 p.m., Eastern time, on \_\_\_\_\_, 1995, or such earlier or later date and time as may be mutually agreed by the President or Vice President of each of Pacific Horizon and MMOT (the "Valuation Time") by \$0.0010 or more as computed by using the market values of a portfolio's assets, Pacific Horizon's Board of Directors will have the right to postpone the Valuation Time and the Effective Time of the Reorganization with respect to such portfolios until such time as the per share difference is less than \$0.0010.

Likewise, the Reorganization Agreement provides that if the per share net asset value of Institutional Shares of the Prime Obligations Fund exceeds the per share net asset value of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund by \$0.0010 or more on the same date and time, MMOT's Board of Trustees will have the right to postpone the Valuation Time and the Effective Time of the Reorganization until such time as the per share difference is less than \$0.0010.

The Reorganization with respect to the Prime Value Fund is subject to a number of conditions, including approval of the Reorganization Agreement and the transactions contemplated thereby described in this Combined Proxy Statement and Prospectus by the shareholders of Pacific Horizon; the receipt of certain legal opinions described in Sections 9(d), 9(e), 10(c) and 10(d) of the Reorganization Agreement (which include an opinion of counsel to MMOT that the shares of the Prime Obligations Fund issued to shareholders of the Prime Value Fund in accordance with the terms of the Reorganization Agreement will be validly issued, fully paid and non-assessable); that at the Effective Time of the Reorganization the number of Prime Value Fund shares outstanding is at least 60% of the number of Prime Value Fund shares outstanding on May 30, 1995; the receipt of certain certificates from the parties concerning the continuing accuracy of the representations and warranties in the Reorganization Agreement and other matters; and the parties' performance in all material respects of their respective agreements and undertakings in the Reorganization Agreement. Assuming satisfaction of the conditions in the Reorganization Agreement, the

Effective Time of the Reorganization will be on \_\_\_\_\_, 1995 or such other date as is agreed to by the parties.

The Reorganization Agreement provides that Bank of America shall be responsible for the payment of the expenses incurred by Pacific Horizon and MMOT in connection with the Reorganization Agreement and the transactions contemplated thereby.

The Reorganization Agreement and the Reorganization described herein may be abandoned at any time prior to the Effective Time of the Reorganization by the mutual consent of the parties to the Reorganization Agreement. The Reorganization Agreement provides further that at any time prior to or (to the fullest extent permitted by law) after approval of the Reorganization Agreement by the shareholders of the Prime Value Fund (a) the parties thereto may, by written agreement authorized by their respective Boards, and with or without the approval of their respective shareholders, amend any of the provisions of the Reorganization Agreement and (b) any party may waive any breach by the other party for the failure to satisfy any of the conditions to its obligations (such waiver to be in writing and authorized by the President or Vice President of the waiving party with or without the approval of such party's shareholders).

Board Considerations. Based upon its evaluations of the information presented to it, and in light of its fiduciary duties under Federal and state law, the Board of Directors of Pacific Horizon at a meeting held on May 25, 1995, has determined that the proposed Reorganization is in the best interests of the shareholders of the Prime Value Fund, and recommends the approval of the Reorganization Agreement by such shareholders at the Meeting. The following is a summary of the information that was presented to, and considered by, the Board of Directors in making its determination.

At the meeting, representatives of Bank of America stated that the Prime Value Fund as an investment product had not developed as expected and is not likely to develop further, particularly because BankAmerica Corporation intends to sell the business which is the Prime Value Fund's target market. However, the Prime Obligations Fund had substantially greater assets (\$\_\_\_\_\_ billion as of \_\_\_\_\_, 1995 versus \$\_\_\_\_\_ million for the Prime Value Fund as of \_\_\_\_\_, 1995). The Board was advised that management believed that the proposed Reorganization would benefit the Prime Value Fund and its shareholders. These benefits included: greater portfolio trading efficiencies, such as quantity discounts, better securities execution, reduced portfolio volatility resulting from shareholder purchase and redemption activity, an initial higher mark-to-market net asset value per share, and potentially broader portfolio diversification.

The Board of Directors reviewed the terms of the proposed Reorganization and also considered the compatibility of the investment objectives, policies and restrictions of the Funds. The Directors also considered the federal tax consequences of the Reorganization. In addition, the Board of Directors reviewed the expected costs of the Reorganization, and the fact that all expenses of the Reorganization would be borne by Bank of America.

The Board reviewed the Prime Obligations Fund's service providers, including without limitation, the Prime Obligations Fund's investment adviser, administrator, custodian and transfer agent. The Board also reviewed the relative performance and expense ratios of the Prime Obligations Fund.

Based upon their evaluation of the relevant information presented to them, and in light of their fiduciary duties under Federal and state law, Pacific Horizon's Board of Directors determined that the proposed Reorganization was in the best interests of Pacific Horizon and the Prime Value Fund and its shareholders and recommended the approval of the Reorganization Agreement by the Prime Value Fund's shareholders at the Meeting.

Similarly, at a meeting held on \_\_\_\_\_, 1995, the Board of Trustees of MMOT considered the proposed Reorganization with respect to the Prime Obligations Fund. Based upon its evaluation of the relevant information provided to it, and in light of its fiduciary duties under Federal and state law, the Board of Trustees determined that the proposed Reorganization was in the best interests of the Prime Obligations Fund and its shareholders.

Among the matters considered by the Board of Trustees was the agreement of Federated Management assuring that at the Effective Time of the Reorganization, the mark-to-market net asset value of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund shall be comparable to that of Institutional Shares of Prime Obligations Fund.

Federal Income Tax Consequences. Consummation of the Reorganization is subject to the condition that Pacific Horizon and MMOT receive an opinion from Drinker Biddle & Reath to the effect that for Federal income tax purposes (i) the transfer of all of the assets and liabilities of the Prime Value Fund to the Prime Obligations Fund in exchange for Institutional Shares of the Prime Obligations Fund and the liquidating distributions to holders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund of the Institutional Shares of the Prime Obligations Fund so received, as described in the Reorganization Agreement, will constitute reorganizations within the meaning of Section

368(a)(1)(C) or Section 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended, and with respect to the Reorganization, the Prime Value Fund and the Prime Obligations Fund will each be considered "a party to a reorganization" within the meaning of 368(b) of the Code; (ii) no gain or loss will be recognized by the Prime Value Fund as a result of such transactions; (iii) no gain or loss will be recognized by the Prime Obligations Fund as a result of such transactions; (iv) no gain or loss will be recognized by the holders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund on the distribution to such holders of Institutional Shares of the Prime Obligations Fund in exchange for their shares of the Prime Value Fund; (v) the basis of the Prime Obligations Fund shares received by a shareholder of the Prime Value Fund will be the same as the basis of the shareholder's Prime Value Fund shares immediately before the Reorganization; (vi) the basis to the Prime Obligations Fund of the assets of the Prime Value Fund received pursuant to such transactions will be the same as the basis of such assets in the hands of the Prime Value Fund immediately before such transactions; (vii) a shareholder's holding period for the Prime Obligations Fund shares will be determined by including the period for which the shareholder held the Prime Value Fund shares exchanged therefor, provided that the shareholder held such Prime Value Fund shares as a capital asset; and (viii) the Prime Obligations Fund's holding period with respect to the assets received in the Reorganization will include the period for which such assets were held by the Prime Value Fund.

Capitalization. Because the Prime Value Fund will be combined with the Prime Obligations Fund in the Reorganization, the total capitalization of the Prime Obligations Fund after the Reorganization is expected to be greater than the current capitalization of the Prime Value Fund. The following table sets forth, as of June 30, 1995: (i) the capitalization of the Prime Value Fund; (ii) the capitalization of the Prime Obligations Fund; and (iii) the pro forma capitalization of the Prime Obligations Fund as adjusted to give effect to the proposed Reorganization. There is, of course, no assurance that the Reorganization will be consummated. Moreover, if consummated, the capitalization of each Fund is likely to be different at the Effective Time of the Reorganization as a result of daily share purchase and redemption activity in the Funds.

	Prime Value Fund	Prime Obligations Fund	Prime Obliga- tions Fund, as adjusted for the Reorganization
Total Net Assets	\$885,807,020	\$2,736,288,996	\$3,622,096,016
Shares Outstanding	\$886,113,604	\$2,736,288,996	\$3,622,402,600
Net Asset Value Per Share	\$1.00	\$1.00	\$1.00

Performance. For the seven-day period ended June 30, 1995, the annualized and effective yields for the Pacific Horizon Shares and Horizon Shares of the Prime Value Fund; and the Institutional Shares of the Prime Obligations Fund were as follows:

	Annualized Yield	Annualized Effective Yield
Prime Value Fund (Pacific Horizon Shares)	5.88%	6.06%
Prime Value Fund (Horizon Shares)	5.88%	6.06%
Prime Obligations Fund (Institutional Shares)	5.94%	6.11%

The annualized yield and effective yield are calculated according to formulas prescribed by the SEC and described in the Prime Value Fund's Statement of Additional Information dated July 1, 1995 and the Prime Obligations Fund's Statement of Additional Information dated November 30, 1994.

#### COMPARISON OF THE FUNDS

Investment Objectives and Policies - Prime Value Fund and Prime Obligations Fund. The investment objective of the Prime Value Fund is "to seek high current income and stability of principal." The investment objective of the Prime Obligations Fund is "to provide current income consistent with stability of principal." Each of the Prime Value Fund's and Prime Obligations Fund's investment objective is a fundamental policy that may not be changed

without a vote of the holders of a majority of the particular Fund's outstanding shares (as defined in the Investment Company Act of 1940 (the "1940 Act")), and each of the Prime Value Fund and Prime Obligations Fund is a money market fund that seeks to maintain a net asset value of \$1.00 per share. There can be no guarantee that a Fund will achieve its objective or that it will maintain a net asset value of \$1.00 per share.

Each of the Prime Value Fund and the Prime Obligations Fund seeks to achieve its investment objective by investing substantially all of its assets in a diversified portfolio of U.S. dollar-denominated "money market" instruments such as bank certificates of deposit, time deposits, demand deposits, bankers' acceptances, commercial paper, repurchase agreements, short term notes, asset backed securities, corporate bonds and government obligations. Each of the Prime Obligations Fund and Prime Value Fund may enter into reverse repurchase agreements and may lend securities. Assets of the Prime Value Fund and Prime Obligations Fund may be invested in dollar-denominated debt securities with remaining maturities of thirteen months or less as defined by the SEC, and the dollar weighted average portfolio maturity of each Fund may not exceed 90 days. Each of the Prime Value Fund and Prime Obligations Fund limits its investments to securities that, in the opinion of their respective investment advisers, present minimal credit risks and which are "First Tier Securities" as defined by the SEC. First Tier Securities consist of (i) instruments that are rated at the time of purchase in the top rating category of one or more unaffiliated nationally recognized statistical rating organizations ("NRSROs") (if the instrument has been rated by more than one NRSRO, then at least two NRSROs must rate the instrument in their highest category), (ii) instruments that are issued by issuers with a class of securities that is comparable in priority and security having such ratings, or (iii) unrated instruments (including instruments with long-term but no short-term ratings) that are of comparable quality to the rated instruments that a Fund may purchase, as determined by a Fund's investment adviser pursuant to guidelines approved by a Fund's Board.

The Prime Value Fund and the Prime Obligations Fund may each invest in bank obligations such as certificates of deposit, demand deposits, time deposits, and bankers' acceptances issued or supported by the credit of domestic and foreign banks. The Prime Value Fund will invest only in banks which have total assets at the time of purchase in excess of \$1 billion. The Prime Obligations Fund will only invest in bank instruments either issued by an institution having capital, surplus and undivided profits over \$100 million, or insured by the Bank Insurance Fund or Savings Association Insurance Fund. In addition, the Prime Obligations Fund may invest 25% or more of the value of its total assets in instruments issued by a U.S. branch of a domestic bank or savings and loan having capital, surplus, and undivided profits in excess of \$100,000,000 at the time of investment. Bank instruments eligible for investment by both Funds include Eurodollar Certificates of Deposit and Yankee Certificates of Deposit. The Prime Value Fund, unlike the Prime Obligations Fund, is subject to a limitation which restricts its investments in bank obligations consisting of interest-bearing savings deposits in commercial banks to amounts not exceeding 5% of the Fund's assets. In addition, the Prime Value Fund, unlike the Prime Obligations Fund, may invest in Yankee Bankers' Acceptances.

Both of the Prime Value Fund and the Prime Obligations Fund may invest in (1) obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities; (2) commercial paper, short-term notes, and bonds issued by domestic and foreign corporations, including Canadian commercial paper and Europaper; (3) commercial paper issued in reliance on the so-called "private placement" exemption from registration afforded by Section 4(2) of the Securities Act of 1933; and (4) asset-backed securities, which are securities backed by mortgages, installments sales contracts, credit card receivables or other assets. Asset-backed securities acquired by the Funds include collateralized mortgage obligations issued by private companies.

Both of the Funds may invest in repurchase agreements and variable and floating rate demand instruments, engage in when-issued and delayed delivery transactions, enter into reverse repurchase agreements, and lend portfolio securities. Although both Funds may enter into repurchase agreements, the Prime Value Fund, unlike the Prime Obligations Fund, intends only to enter into repurchase agreements having maturities not exceeding 60 days. Both Funds may invest up to 10% of their net assets in securities that are illiquid.

The Prime Value Fund, unlike the Prime Obligations Fund, may invest in (1) U.S. dollar denominated obligations issued or guaranteed by foreign governments or any of their political subdivisions, agencies or instrumentalities, including debt obligations of supranational entities; (2) "Yankee" Bankers' Acceptances; (3) municipal securities; (4) participation interests in high quality debt securities issued by domestic financial institutions; and (5) "stripped" securities issued by the U.S. Treasury.

The Prime Obligations Fund, unlike the Prime Value Fund, may (1) enter into, or acquire participations in, short-term borrowing arrangements with corporations, consisting of either a short-term credit facility or a master note agreement payable upon demand; and (2) invest 25% or more of its total assets in commercial paper issued by commercial finance companies and consumer finance companies. Concentrating investments in any one industry may subject the Prime

Obligations Fund to more risk than if it did not concentrate investments.

In accordance with current regulations of the SEC and, as a matter of non-fundamental policy that may be changed without shareholder approval, both the Prime Value Fund and the Prime Obligations Fund generally intend to limit their investments in the securities of any single issuer (other than securities issued by the U.S. Government, its agencies or instrumentalities) to not more than 5% of the respective Fund's total assets at the time of purchase.

Fundamental Investment Limitations of the Prime Value Fund and the Prime Obligations Fund. The Prime Value Fund and Prime Obligations Fund may not change their fundamental investment limitations without an affirmative vote of the holders of a majority of such Fund's outstanding shares (as defined in the 1940 Act). The following is a comparison of certain fundamental investment limitations of the Prime Value Fund and Prime Obligations Fund.

The Prime Value Fund may not purchase any securities which would cause, at the time of purchase, less than 25% of the value of its total assets to be invested in obligations of issuers in the banking industry or in obligations, such as repurchase agreements, secured by such obligations (unless the Prime Value Fund is in a temporary defensive position) or which would cause, at the time of purchase, 25% or more of the Prime Value Fund's total assets to be invested in the securities of one or more issuers conducting their principal business activities in any other industry, provided that (a) there is no limitation with respect to obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or repurchase agreements secured by such obligations; (b) wholly-owned finance companies will be considered to be in the industries of their parents if their activities are primarily related to financing the activities of the parents; and (c) the industry classification of utilities will be determined according to their service. For example, gas, gas transmission, electric and gas, electric and telephone will each be considered a separate industry. For purposes of this investment limitation, the Prime Value Fund treats, in accordance with the current views of the staff of the SEC and as a matter of non-fundamental policy that may be changed without a vote of shareholders, all supranational organizations as a single industry and each foreign government (and all of its agencies) as a separate industry. In addition, for purposes of the Prime Value Fund's investment limitation concerning industry concentration, U.K. Building Societies will be considered to be in the banking industry.

The Prime Obligations Fund will not invest 25% or more of its total assets in any one industry, except that the Prime Obligations Fund will generally invest 25% or more of the value of its total assets in the commercial paper issued by finance companies. Concentrating investments in any one industry may subject the Prime Obligations Fund to more risk than if it did not concentrate investments.

The Prime Value Fund and the Prime Obligations Fund generally may not borrow money or issue senior securities, except that the Funds may borrow money from banks and may enter into reverse repurchase agreements for temporary purposes in amounts up to one-third of the value of the total assets at the time of such borrowing.

Other Information. Both Pacific Horizon and MMOT are registered as open-end management investment companies under the 1940 Act. The Prime Value Fund and Prime Obligations Fund are each classified as diversified funds. Currently, Pacific Horizon and MMOT maintain sixteen and six separate investment portfolios which have commenced operations, respectively.

Pacific Horizon is organized as a Maryland corporation and is subject to the provisions of its Charter and By-laws and to the Maryland General Corporation Law. MMOT is organized as a Massachusetts business trust, and is subject to the provisions of its Declaration of Trust and By-Laws. Although the rights of shareholders of a Maryland corporation vary in certain respects from the rights of shareholders of a Massachusetts business trust, the attributes of a share of common stock in Pacific Horizon are comparable to those of a share of beneficial interest in MMOT. When issued for payment as described in their respective Prospectuses, Pacific Horizon and MMOT shares are fully paid and non-assessable by such entities except, with respect to MMOT shares, that under Massachusetts law, shareholders may, under certain circumstances, be personally liable for MMOT's obligations and liabilities. To protect its shareholders, MMOT has filed legal documents with Massachusetts that expressly disclaim the liability of its shareholders for acts or obligations of MMOT. In the unlikely event a shareholder is held personally liable for MMOT's obligations, MMOT is required to use its property to protect or compensate the shareholder.

#### INFORMATION RELATING TO VOTING MATTERS

General Information. This Combined Proxy Statement and Prospectus is being furnished in connection with the solicitation of proxies by the Board of Directors of Pacific Horizon for use at the Meeting. It is expected that the solicitation of proxies will be primarily by mail. Pacific Horizon's officers and service providers may also solicit proxies by telephone, telegraph or personal interview. Pacific Horizon will request that each bank or broker

holding shares for others in its name of custody, or in the names of one or more nominees, forward copies of the proxy materials to the persons for whom it holds such shares and to request authorization to execute the proxies. In addition, although it has not done so to date, Pacific Horizon may retain the services of one or more outside organizations to aid in the solicitation of proxies. Such organizations normally charge a fee plus out-of-pocket expenses. Any shareholder giving a proxy may revoke it at any time before it is exercised by submitting to Pacific Horizon a written notice of revocation or a subsequently executed proxy or by attending the Meeting and electing to vote in person.

Only shareholders of record at the close of business on \_\_\_\_\_ 1995 will be entitled to vote at the Meeting. On that date, there were outstanding and entitled to be voted \_\_\_\_\_ shares of the Prime Value Fund, (\_\_\_\_\_ Pacific Horizon Shares and \_\_\_\_\_ Horizon Shares). Each share or fraction thereof is entitled to one vote or fraction thereof.

If the accompanying proxy is executed and returned in time for the Meeting, the shares covered thereby will be voted in accordance with the proxy on all matters that may properly come before the meeting (or any adjournment thereof).

Shareholder Approval. Approval of the Reorganization Agreement (and the transactions contemplated thereby) requires the affirmative vote of a majority of all votes entitled to be cast on the matter.

In tallying shareholder votes, abstentions and broker non-votes (i.e., proxies sent in by brokers and other nominees which cannot be voted on a proposal because instructions have not been received from the beneficial owners) will be counted for purposes of determining whether or not a quorum is present for the purposes of convening the Meeting. On the Reorganization proposal, abstentions and broker non-votes will have the same effect as a vote against the Reorganization proposal.

The vote of the shareholders of MMOT is not being solicited, because their approval or consent is not necessary for the Reorganization.

Quorum. In the event that a quorum is not present at the Meeting, or in the event that a quorum is present at the Meeting but sufficient votes to approve the Reorganization Agreement are not received, the persons named as proxies, or their substitutes, may propose one or more adjournments of the Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of those shares affected by the adjournment represented at the Meeting in person or by proxy. If a quorum is present, the persons named as proxies will vote those proxies which they are entitled to vote FOR the Reorganization Agreement in favor of such adjournment, and will vote those proxies required to be voted AGAINST such proposal, against any adjournment. Under Pacific Horizon's By-laws, a quorum is constituted with respect to the Prime Value Fund by the presence in person or by proxy of the holders of more than 50% of the outstanding shares of the Prime Value Fund entitled to vote at the Meeting.

Appraisal Rights. Shareholders of Pacific Horizon Shares and Horizon Shares are not entitled to any rights of share appraisal under Pacific Horizon's Charter or under the laws of the State of Maryland in connection with the Reorganization. Shareholders have, however, the right to redeem from the Prime Value Fund their shares at net asset value until the Effective Time of the Reorganization, and thereafter shareholders may redeem from MMOT the shares acquired by them in the Reorganization at net asset value subject to the forward pricing requirements of Rule 22c-1 under the 1940 Act.

Principal Shareholders. As of \_\_\_\_\_, 1995, the name, address and percentage ownership of the persons which may have owned beneficially or of record more than 5% of the outstanding Pacific Horizon Shares and Horizon Shares of the Prime Value Fund and the percentage of Institutional Shares of the corresponding pro forma combined Prime Obligations Fund that would be beneficially owned by such persons upon consummation of the reorganization based upon their holdings and outstanding shares at \_\_\_\_\_, 1995 are as follows:

Prime Value Fund

As of \_\_\_\_\_, 1995, the directors and officers of Pacific Horizon as a group owned beneficially less than 1% of the outstanding shares of the Prime Value Fund.

As of \_\_\_\_\_, 1995, the name, address and percentage ownership of the persons which may have owned beneficially or of record more than 5% of the outstanding Institutional Shares of MMOT's Prime Obligations Fund and the percentage of Institutional Shares of the corresponding pro forma combined Prime Obligations Fund that would be beneficially owned by such persons upon consummation of the Reorganization based upon their holdings and outstanding shares at \_\_\_\_\_, 1995 are as follows:

Prime Obligations Fund

As of \_\_\_\_\_, 1995, the trustees and officers of MMOT as a group



owned beneficially less than 1% of the outstanding shares of the Prime Obligations Fund.

#### ADDITIONAL INFORMATION ABOUT MMOT AND PACIFIC HORIZON

Information about the Prime Obligations Fund and its Institutional Shares is included in the Prospectus dated November 30, 1994, accompanying this Combined Proxy Statement and Prospectus, and is incorporated by reference herein, and information about the Prime Value Fund is included in the Prospectus dated July 1, 1995, which is also incorporated herein by reference. Additional information about the Prime Value Fund is included in the Prime Value Fund's Statement of Additional Information dated July 1, 1995, with respect to its Pacific Horizon Shares and Horizon Shares, which have been filed with the SEC. Additional Information about the Prime Obligations Fund is included in the Prime Obligations Fund's Statement of Additional Information dated November 30, 1994 which has been filed with the SEC. Copies of the Prime Obligations Fund's Annual Report to Shareholders and most recent Semi-Annual Report to Shareholders may be obtained without charge by writing to Federated Administrative Services, Federated Investors Tower, Pittsburgh, PA 15222-3771 or calling 1-800-235-4669. Copies of the Prime Value Fund's Annual Report to Shareholders may be obtained without charge by writing to Concord, 125 West 55th Street, New York, New York 10019 or by calling 1-800-332-3863. Pacific Horizon and MMOT are subject to the informational requirements of the Securities Exchange Act of 1934 and the 1940 Act, as applicable, and, in accordance with such requirements, file proxy materials, reports and other information with the SEC. These materials can be inspected and copied at the Public Reference Facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at the office of Concord listed above and at the SEC's Regional Offices at 7 World Trade Center, Suite 1300, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549, at prescribed rates.

#### FINANCIAL STATEMENTS AND EXPERTS

The Financial Highlights of the Prime Value Fund, which are unaudited, incorporated herein by reference and the financial statements set forth in the Annual Report to Shareholders for the fiscal year ended February 28, 1995, and incorporated by reference in the Statement of Additional Information dated \_\_\_\_\_, 1995, and in the Prime Value Fund's Statement of Additional Information dated July 1, 1995 have been audited by Price Waterhouse LLP. The financial statements and Financial Highlights audited by Price Waterhouse LLP have been incorporated herein by reference in reliance on their reports given on their authority as experts in auditing and accounting.

The Financial Highlights for the Institutional Shares of the Prime Obligations Fund for the six-month period ended January 31, 1995 are incorporated herein by reference to MMOT's Semi-Annual Report to Shareholders for such period. The Financial Highlights of the Prime Obligations Fund incorporated herein by reference and the financial statements set forth in the Annual Report to Shareholders for the fiscal year ended July 31, 1994, and incorporated by reference in the Statement of Additional Information dated \_\_\_\_\_, 1995 and in the Prime Obligations Funds' Statement of Additional Information dated November 30, 1994, have been audited (except for the six month period ended January 31, 1995) by Arthur Andersen LLP, Independent Public Accountants, for the periods indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting.

#### OTHER BUSINESS

Pacific Horizon's Board of Directors knows of no other business to be brought before the Meeting. However, if any other matters come before the Meeting, it is the intention of the Board that proxies that do not contain specific restrictions to the contrary will be voted on such matters in accordance with the judgment of the persons named in the enclosed form of proxy.

#### LITIGATION

Neither Pacific Horizon nor MMOT is involved in any litigation which would have any material adverse financial effect upon either the Prime Value Fund or the Prime Obligations Fund.

#### NOTICE TO BANKS, BROKER-DEALERS, VOTING DIRECTORS AND THEIR NOMINEES

Please advise Pacific Horizon, c/o \_\_\_\_\_, 125 West 55th Street, New York, New York 10019 whether other persons are the beneficial owners of the shares for which proxies are being solicited, and if so, the number of copies of this Combined Proxy Statement and Prospectus and

other soliciting material you wish to receive in order to supply copies to beneficial owners. Pacific Horizon will pay persons holding shares in their names or those of their nominees their reasonable expenses incurred in sending soliciting materials to their principals.

#### SHAREHOLDER INQUIRIES

Shareholder inquiries may be addressed to Pacific Horizon in writing at the address on the cover page of this Combined Proxy Statement and Prospectus or by telephoning (800) 332-3863.

\* \* \*

SHAREHOLDERS WHO DO NOT EXPECT TO BE PRESENT AT THE MEETING ARE REQUESTED TO DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

#### APPENDIX A TO THE COMBINED PROXY STATEMENT AND PROSPECTUS

AGREEMENT AND PLAN OF  
REORGANIZATION  
BY AND BETWEEN  
PACIFIC HORIZON FUNDS, INC.  
AND  
MONEY MARKET OBLIGATIONS TRUST

DATED , 1995

#### Table of Contents

	Page
Transfer of Assets of the Prime Value Fund	2
Liquidating Distributions of the Prime Value Fund	5
Valuation Time	6
Certain Representations, Warranties and Agreements of Pacific Horizon	7
Certain Representations, Warranties and Agreements of MMOT	13
Shareholder Action on Behalf of the Prime Value Fund	18
N-14 Registration Statement	19
Effective Time of the Reorganization	19
MMOT Conditions	19
Pacific Horizon Conditions	26
Tax Documents	30
Further Assurances	30
Termination of Representations and Warranties	31
Termination of Agreement	31
Amendment and Waiver	32
Governing Law	32
Successors and Assigns	32
Beneficiaries	32
MMOT Liability	32
Pacific Horizon Liability	34

Notices	34
Expenses	35
Entire Agreement	36
Counterparts	36
AGREEMENT AND PLAN OF REORGANIZATION (the "Agreement") made as of the	

of \_\_\_\_\_, 1995 by and between Pacific Horizon Funds, Inc. ("Pacific Horizon"), a corporation organized under the laws of the State of Maryland on October 27, 1982, and Money Market Obligations Trust ("MMOT"), a business trust organized under the laws of the Commonwealth of Massachusetts on October 3, 1988.

WHEREAS, each of Pacific Horizon and MMOT is an open-end management investment company registered with the Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"); and

WHEREAS, the parties desire that all of the assets and known liabilities of the Prime Value Fund, an investment portfolio offered by Pacific Horizon ("Prime Value Fund"), be transferred to, and be acquired and assumed by, the Prime Obligations Fund, an investment portfolio offered by MMOT ("Prime Obligations Fund"), as stated herein, in exchange for Institutional Class Shares of the Prime Obligations Fund which shall thereafter be distributed by Pacific Horizon to the holders of Pacific Horizon Shares (Class P Common Stock) and Horizon Shares (Class P-Special Series 2 Common Stock) of the Prime Value Fund in connection with the liquidation of the Prime Value Fund as described in this Agreement (the "Reorganization").

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and subject to the terms and conditions thereof, the parties hereto, intending to be legally bound, agree as follows:

1. Transfer of Assets of the Prime Value Fund. (a) At the Effective Time of the Reorganization (as defined below), all property of every description, and all interests, rights, privileges and powers of the Prime Value Fund other than cash in an amount necessary to pay any unpaid dividends and distributions as provided in Section 2 hereof (such assets are herein referred to as the "Prime Value Fund Assets") shall be transferred and conveyed by the Prime Value Fund to MMOT, on behalf of its Prime Obligations Fund, and shall be accepted by MMOT, on behalf of the Prime Obligations Fund, and MMOT on behalf of the Prime Obligations Fund, shall assume all known liabilities whether accrued, absolute, contingent or otherwise, of the Prime Value Fund (such known liabilities are herein referred to as the "Prime Value Fund Liabilities") as more particularly set forth in the following paragraph, such that at and after the Effective Time of the Reorganization: (i) all assets of the Prime Value Fund shall become and be the assets of the Prime Obligations Fund; and (ii) all known liabilities of the Prime Value Fund shall attach to the Prime Obligations Fund as aforesaid and may thenceforth be enforced against the Prime Obligations

Fund to the extent as if the same had been incurred by it. Without limiting the generality of the foregoing, it is understood that the Prime Value Fund Assets shall include all property and assets of any nature whatsoever, including, without limitation, all cash, cash equivalents, securities, and claims and receivables (including interest receivables) owned by the Prime Value Fund, at the Effective Time of the Reorganization, and all goodwill, all other intangible property and all books and records belonging to the Prime Value Fund. It is further understood that recourse for the Prime Value Fund Liabilities assumed by the Prime Obligations Fund shall, at and after the Effective Time of the Reorganization, be limited to the assets of the Prime Obligations Fund.

(b) In exchange for the transfer of the Prime Value Fund Assets and the assumption of the Prime Value Fund Liabilities, MMOT shall simultaneously issue at the Effective Time of the Reorganization to the Prime Value Fund a number of full and fractional shares of the Prime Obligations Fund (to the third decimal place), of the Institutional Shares Class (the "Institutional Shares"), all determined and adjusted as provided in this Section 1. The number of Institutional Shares of the Prime Obligations Fund so issued will be equal in number to the number of full and fractional Pacific Horizon Shares and Horizon Shares, representing interests in the Prime Value Fund outstanding immediately prior to the Effective Time of the Reorganization, provided that at the Effective Time of the Reorganization the price per Pacific Horizon Share and Horizon Share of the Prime Value Fund and the price per Institutional Share of the Prime Obligations Fund for purposes of sales and redemptions is \$1.00 based on the amortized cost valuation procedures that have been adopted by Pacific Horizon and MMOT, respectively.

(c) The net asset value of Institutional Shares of the Prime Obligations Fund and the net asset value of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund shall be determined as of the Valuation Time specified in Section 3. The net asset value of Institutional Shares of the Prime Obligations Fund shall be computed in the manner set forth in the Prime Obligations Fund's then current prospectus under the Securities Act of 1933, as amended (the "1933 Act"). In determining the value of the securities transferred by the Prime Value Fund to the Prime Obligations Fund, each security shall be priced in accordance with the policies and procedures of Pacific Horizon as described in its then current prospectus for the Prime Value Fund. For such purposes, price quotations and the security characteristics relating to establishing such quotations shall be determined by Pacific Horizon, provided that such determination shall be subject to the approval of MMOT.

(d) In addition to the computations made pursuant to Sections 1(a), 1(b), 1(c) and 3, the net asset values of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund and the Institutional Shares of the Prime Obligations Fund will be computed as of the Valuation Time by marking to market the portfolio's

assets. If the per share net asset value of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund exceeds the per share net asset value of Institutional Shares of the Prime Obligations Fund at the Valuation Time (as set forth in Section 3) by \$.0010 or more as computed by using the market values of such portfolio's assets, Pacific Horizon's Board of Directors will have the right to postpone the Valuation Time and the Effective Time of the Reorganization (as defined in Section 8) until such time as the per share difference is less than \$.0010. If the per share net asset value of Institutional Shares of the Prime Obligations Fund exceeds the per share net asset value of Pacific Horizon Shares or Horizon Shares of the Prime Value Fund at the Valuation Time (as set forth in Section 3) by \$.0010 or more as computed by using the market values of such portfolio's assets, MMOT's Board of Trustees will have the right to postpone the Valuation Time and the Effective Time of the Reorganization (as defined in Section 8) until such time as the per share difference is less than \$.0010.

2. Liquidating Distributions of the Prime Value Fund. At the Effective Time of the Reorganization, the Prime Value Fund shall distribute in complete liquidation, pro rata to the recordholders of Pacific Horizon Shares and Horizon Shares at the Effective Time of the Reorganization the Institutional Shares of the Prime Obligations Fund received by the Prime Value Fund pursuant to Section 1. In addition, each shareholder of record of the Prime Value Fund shall have the right to receive any unpaid dividends or other distributions which were declared before the Effective Time of the Reorganization with respect to the shares of the Prime Value Fund that are held by the shareholder at the Effective Time of the Reorganization. In accordance with instructions it receives from Pacific Horizon, MMOT shall record on its books the ownership of the Institutional Shares of the Prime Obligations Fund by the recordholders of the Pacific Horizon Shares and the Horizon Shares of the Prime Value Fund. No redemption or repurchase of the Prime Obligations Fund's shares credited to former Pacific Horizon shareholders in respect to the Prime Value Fund's shares represented by unsurrendered share certificates shall be permitted until such certificates have been surrendered to MMOT's transfer agent for cancellation. The holder of any certificate or certificates representing Pacific Horizon or Horizon Shares of the Prime Value Fund shall immediately notify MMOT of any loss, destruction or mutilation of such certificate or certificates, and MMOT may issue a new certificate representing common stock in the Prime Obligations Fund in the place of any certificate theretofore issued by Pacific Horizon, on behalf of the Prime Value Fund, which the owner thereof shall allege to have been lost or destroyed or which shall have been mutilated, and the Board of Trustees of MMOT, in its discretion, may require such owner or his or her legal representative to give to MMOT a bond in such sum, limited or unlimited, and in such form and with such surety or sureties, as the Board of Trustees of MMOT in its absolute discretion shall determine, to indemnify MMOT against any claim

that may be made against it or on account of the alleged loss or destruction of any such certificate or certificates, or issuance of a new certificate. All of the issued and outstanding shares of the Prime Value Fund shall be cancelled on the books of Pacific Horizon at the Effective Time of the Reorganization and shall thereafter represent only the right to receive Institutional Shares of the Prime Obligations Fund, and the Prime Value Fund's transfer books shall be closed permanently. Pacific Horizon will also file Articles of Amendment to the Company's Charter with the Maryland State Department of Assessments and Taxation to effect further the cancellation of such shares to unissued shares.

3. Valuation Time. Subject to Section 1(d) hereof, the Valuation Time shall be 4:00 P.M., Eastern Time, on \_\_\_\_\_, 1995, or such earlier or later date and time as may be mutually agreed by the President or Vice President of each of the parties and set forth in writing signed by such President or Vice President.

4. Certain Representations, Warranties and Agreements of Pacific Horizon. Pacific Horizon, on behalf of itself and the Prime Value Fund, represents and warrants to, and agrees with, MMOT as follows:

(a) It is a corporation duly organized under the laws of the State of Maryland on October 27, 1982, and is validly existing and in good standing under the laws of the State of Maryland. It is registered with the SEC as an open-end, management investment company under the 1940 Act and its registration with the SEC as an investment company is in full force and effect.

(b) It has power to own all of its properties and assets and, subject to the approval of shareholders referred to in Section 6, to carry out and consummate the transactions contemplated herein, and has all necessary federal, state and local authorizations to carry on its business as now being conducted and to consummate the transactions contemplated by this Agreement.

(c) This Agreement has been duly authorized, executed and delivered by Pacific Horizon, and represents Pacific Horizon's valid and binding contract, enforceable in accordance with its terms, subject as to enforcement to the effect of bankruptcy, insolvency, reorganization, arrangement, moratorium, and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles and provided that the provisions of this Agreement intended to limit liability for particular matters to the Prime

Value Fund and its assets, including but not limited to Sections 1(a), 19 and 20 of this Agreement, may not be enforceable. The execution and delivery of this Agreement did not, and the consummation of the transactions contemplated by this Agreement will not, violate Pacific Horizon's Articles of Incorporation or By-laws or any agreement or arrangement to which it is a party or by which it is bound.

- (d) The Prime Value Fund has elected to qualify and has qualified as a regulated investment company under Part I of Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), as of and since its first taxable year; has been a regulated investment company under such Part of the Code at all times since the end of its first taxable year when it so qualified; and qualifies and shall continue to qualify as a regulated investment company for its taxable year ending on the date on which the Effective Time of the Reorganization occurs.
- (e) All federal, state, local and foreign income, profits, franchise, sales, withholding, customs, transfer and other taxes, including interest, additions to tax and penalties (collectively, "Taxes") relating to the Prime Value Fund Assets due or properly shown to be due on any return filed by the Prime Value Fund with respect to taxable periods ending on or prior to, and the portion of any interim period up to, the date hereof have been fully and timely paid or provided for; and there are no levies, liens, or other encumbrances relating to Taxes existing, threatened or pending with respect to the Prime Value Fund Assets.
- (f) The financial statements of the Prime Value Fund for its fiscal year ended February 28, 1995, examined by Price Waterhouse LLP, copies of which have been previously furnished to MMOT, present fairly the financial position of the Prime Value Fund as of the respective dates indicated and the results of its operations for the periods indicated, in conformity with generally accepted accounting principles.
- (g) Prior to the Valuation Time, the Prime Value Fund shall have declared a dividend or dividends, with a record date and ex-dividend date prior to the Valuation Time, which, together with all previous dividends, shall have the effect of distributing to its shareholders all of

its investment company taxable income, if any, for the taxable periods or years ended on or before February 28, 1995 and for the period from said date to and including the Effective Time of the Reorganization (computed without regard to any deduction for dividends paid), and all of its net capital gain, if any, realized in taxable periods or years ended on or before December 31, 1994 and in the period from said date to and including the Effective Time of the Reorganization.

- (h) At both the Valuation Time and the Effective Time of the Reorganization, there shall be no liabilities of the Prime Value Fund, whether accrued, absolute, contingent or otherwise, not reflected in the aggregate net asset value per share of a Pacific Horizon Share and Horizon Share of the Prime Value Fund.
- (i) There are no legal, administrative or other proceedings pending or, to its knowledge threatened, against Pacific Horizon or the Prime Value Fund which could result in liability on the part of Pacific Horizon or the Prime Value Fund.
- (j) Subject to the approvals of shareholders referred to in Section 6, at both the Valuation Time and the Effective Time of the Reorganization, it shall have full right, power and authority to sell, assign, transfer and deliver the Prime Value Fund Assets and, upon delivery and payment for the Prime Value Fund Assets as contemplated herein, the Prime Obligations Fund shall acquire good and marketable title thereto, free and clear of all liens and encumbrances, and subject to no restrictions on the ownership or transfer thereof (except as imposed by federal or state securities laws).
- (k) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by Pacific Horizon of the transactions contemplated by this Agreement, except such as may be required under the 1933 Act, the Securities Exchange Act of 1934, as amended ("1934 Act"), the 1940 Act, the rules and regulations under those Acts, or state securities laws.
- (l) Insofar as the following relate to Pacific Horizon,
  - (i) the registration statement filed by MMOT on Form N-14 relating to the shares of the Prime Obligations Fund



that will be registered with the SEC pursuant to this Agreement, which, without limitation, shall include or incorporate by reference the proxy statement of Pacific Horizon and the prospectuses of Pacific Horizon and MMOT with respect to the transactions contemplated by this Agreement, and any supplement or amendment thereto or to the documents contained or incorporated therein by reference (the "N-14 Registration Statement") on the effective date of the N-14 Registration Statement, at the time of the shareholders' meeting referred to in Section 6 and at the Effective Time of the Reorganization: (i) shall comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act, the rules and regulations thereunder, and state securities laws, and (ii) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

- (m) All of the issued and outstanding Pacific Horizon Shares and Horizon Shares of the Prime Value Fund have been duly and validly issued, are fully paid and non-assessable, and were offered for sale and sold in conformity with all applicable federal and state securities laws, and no shareholder of the Prime Value Fund has any preemptive right of subscription or purchase in respect of such shares.
- (n) It shall not sell or otherwise dispose of any shares of the Prime Obligations Fund to be received in the transactions contemplated herein, except in distribution to its shareholders as contemplated herein.

5. Certain Representations, Warranties and Agreements of MMOT. MMOT, on behalf of itself and the Prime Obligations Fund, represents and warrants to, and agrees with, Pacific Horizon as follows:

- (a) It is a Massachusetts business trust duly created pursuant to its Declaration of Trust for the purpose of acting as a management investment company under the 1940 Act and is validly existing under the laws of, and duly authorized to transact business in, the Commonwealth of Massachusetts. It is registered with the SEC as an open-end management investment company under the 1940 Act and its registration with the SEC as an investment company

- is in full force and effect.
- (b) It has power to own all of its properties and assets and to carry out and consummate the transactions contemplated herein, and has all necessary federal, state and local authorizations to carry on its business as now being conducted and to consummate the transactions contemplated by this Agreement.
- (c) This Agreement has been duly authorized, executed and delivered by MMOT, and represents MMOT's valid and binding contract, enforceable in accordance with its terms, subject as to enforcement to the effect of bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. The execution and delivery of this Agreement did not, and the consummation of the transactions contemplated by this Agreement will not, violate MMOT's Declaration of Trust or By-laws or any agreement or arrangement to which it is a party or by which it is bound.
- (d) The Prime Obligations Fund has elected to qualify and has qualified as a regulated investment company under Part I of Subchapter M of the Code, as of and since its first taxable year; has been a regulated investment company under such Part of the Code at all times since the end of its first taxable year when it so qualified; and intends to continue to qualify as a regulated investment company.
- (e) The financial statements of the Prime Obligations Fund for its fiscal year ended July 31, 1994, examined by Arthur Andersen LLP, Independent Public Accountants, copies of which have been previously furnished to Pacific Horizon, present fairly the financial position of the Prime Obligations Fund as of the date indicated and the results of its operations for the periods indicated, in conformity with generally accepted accounting principles.
- (f) The unaudited financial statements of the Prime Obligations Fund for the six-month period ended January 31, 1995, copies of which have been previously furnished to Pacific Horizon, present fairly the financial position of the Prime Obligations Fund as of the date indicated and the results of its operations for the

periods indicated, in conformity with generally accepted accounting principles.

- (g) At both the Valuation Time and the Effective Time of the Reorganization, there shall be no liabilities of the Prime Obligations Fund, whether accrued, absolute, contingent or otherwise, not reflected in the net asset value per share of its Institutional Shares issued pursuant to this Agreement.
- (h) There are no legal, administrative or other proceedings pending or, to its knowledge, threatened against MMOT or the Prime Obligations Fund which could result in liability on the part of MMOT or the Prime Obligations Fund.
- (i) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by MMOT of the transactions contemplated by this Agreement, except such as may be required under the 1933 Act, the 1934 Act, the 1940 Act, the rules and regulations under those Acts, or state securities laws.
- (j) Insofar as the following relate to MMOT, the N-14 Registration Statement, on the effective date of the N-14 Registration Statement, at the time of the shareholders' meeting referred to in Section 6 and at the Effective Time of the Reorganization: (i) shall comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act, the rules and regulations thereunder, and state securities laws, and (ii) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.
- (k) The Institutional Shares of the Prime Obligations Fund to be issued and delivered to the Prime Value Fund for the account of recordholders of Pacific Horizon Shares and Horizon Shares of the Prime Value Fund, pursuant to the terms hereof, shall have been duly authorized as of the Effective Time of the Reorganization and, when so issued and delivered, shall be registered under the 1933 Act and shall be registered or exempt from registration under applicable state securities laws, and shall be duly and validly issued, fully paid and non-assessable, and no shareholder of MMOT shall have any preemptive

right of subscription or purchase in respect thereto.

6. Shareholder Action on Behalf of the Prime Value Fund. As soon as practicable after the effective date of the N-14 Registration Statement, but in any event prior to the Effective Time of the Reorganization and as a condition thereto, the Board of Directors of Pacific Horizon shall call, and Pacific Horizon shall hold, a meeting of the shareholders of the Prime Value Fund for the purpose of considering and voting upon:

- (a) Approval of this Agreement and the transactions contemplated hereby, including, without limitation:
  - (i) The transfer of the Prime Value Fund Assets to the Prime Obligations Fund, and the assumption by the Prime Obligations Fund of the Prime Value Fund Liabilities, in exchange for Institutional Shares of the Prime Obligations Fund.
  - (ii) The liquidation of the Prime Value Fund through the distribution to its recordholders of Pacific Horizon Shares and Horizon Shares of the Institutional Shares of the Prime Obligations Fund as described in this Agreement.
- (b) Such other matters as may be determined by the Board of Directors of Pacific Horizon.

7. N-14 Registration Statement. MMOT shall file the N-14 Registration Statement. MMOT and Pacific Horizon have cooperated and shall continue to cooperate with each other, and have furnished and shall continue to furnish each other with the information relating to itself that is required by the 1933 Act, the 1934 Act, the 1940 Act, the rules and regulations under each of those Acts and state securities laws, to be included in the N-14 Registration Statement.

8. Effective Time of the Reorganization. Subject to Section 1(d) hereof, delivery of the Prime Value Fund Assets and the Institutional Shares of the Prime Obligations Fund to be issued pursuant to Section 1 and the liquidation of the Prime Value Fund pursuant to Section 2 shall occur at the opening of business on the next business day following the Valuation Time, or on such other date, and at such place and time and date, agreed to by the President or Vice President, of each of the parties. The date and time at which such actions are taken are referred to herein as the "Effective Time of the Reorganization." To the extent the Prime Value Fund Assets are, for any reason, not transferred at the Effective Time of the Reorganization, Pacific Horizon shall cause the Prime Value Fund Assets to be transferred in accordance with this Agreement at the earliest practicable date thereafter.

9. MMOT Conditions. The obligations of MMOT hereunder shall be subject to the following conditions precedent:

- (a) This Agreement and the transactions contemplated by this Agreement shall have been approved by the Board of

Directors of Pacific Horizon and by the shareholders of the Prime Value Fund of Pacific Horizon, both in the manner required by law.

- (b) Pacific Horizon shall have duly executed and delivered to MMOT such bills of sale, assignments, certificates and other instruments of transfer ("Transfer Documents") as MMOT may reasonably deem necessary or desirable to transfer all of the Prime Value Fund's right, title and interest in and to the Prime Value Fund Assets. The Prime Value Fund Assets shall be accompanied by all necessary state stock transfer stamps or cash for the appropriate purchase price therefor.
- (c) All representations and warranties of Pacific Horizon made in this Agreement shall be true and correct in all material respects as if made at and as of the Valuation Time and the Effective Time of the Reorganization. As of the Valuation Time and the Effective Time of the Reorganization there shall have been no material adverse change in the financial position of the Prime Value Fund since the date of the financial statements referred to in Section 4(f) other than those changes incurred in the ordinary course of business as an investment company since the date of the financial statement referred to in Section 4(f). No action, suit or other proceeding shall be threatened or pending before any court or governmental agency in which it is sought to restrain or prohibit, or obtain damages or other relief in connection with, this Agreement or the transactions contemplated herein. MMOT shall have received a certificate from the President or Vice President of Pacific Horizon stating that each of the conditions set forth in this Section 9(a) and in this Section 9(c) have been met.
- (d) MMOT shall have received an opinion of Drinker Biddle & Reath addressed to MMOT in the form reasonably satisfactory to it and dated the Effective Time of the Reorganization, substantially to the effect that:
  - (i) Pacific Horizon is a Maryland corporation duly incorporated and validly existing and in good standing under the laws of the State of Maryland; (ii) the shares of the Prime Value Fund outstanding at the Effective Time of the Reorganization are duly authorized, validly

issued, fully paid and non-assessable by the Prime Value Fund, and to such counsel's knowledge, no shareholder of Pacific Horizon has any option, warrant or pre-emptive right to subscription or purchase in respect thereof; (iii) this Agreement has been duly authorized, executed and delivered by Pacific Horizon and represents a legal, valid and binding contract, enforceable in accordance with its terms, subject to the effect of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors' rights generally and court decisions with respect thereto and such counsel shall express no opinion with respect to the application of equitable principles in any proceeding, whether at law or in equity or with respect to the provisions of this Agreement intended to limit liability for particular matters to the Prime Value Fund and its assets, including but not limited to Sections 1(a), 19 and 20 of this Agreement; (iv) the execution and delivery of this Agreement did not, and the consummation of the transactions contemplated by this Agreement will not, violate the Articles of Incorporation or By-laws of Pacific Horizon or any material agreement known to such counsel to which Pacific Horizon is a party or by which Pacific Horizon is bound; and (v) to such counsel's knowledge, no consent, approval, authorization or order of any court or governmental authority is required for the consummation by Pacific Horizon of the transactions contemplated by this Agreement, except such as have been obtained under the 1933 Act, the 1934 Act, the 1940 Act, the rules and regulations under those Acts and such as may be required under the state securities laws. Such opinion may rely on the opinion of other counsel to the extent set forth in such opinion, provided such other counsel is reasonably acceptable to MMOT.

- (e) MMOT shall have received an opinion of Drinker Biddle & Reath, addressed to MMOT and Pacific Horizon in the form reasonably satisfactory to them and dated the Effective Time of the Reorganization, substantially to the effect that for federal income tax purposes (i) the transfer of all of the Prime Value Fund Assets to the Prime Obligations Fund, and the assumption by the Prime Obligations Fund of the Prime Value Fund Liabilities, in

exchange for shares of the Prime Obligations Fund, and the distribution of said shares to the shareholders of the Prime Value Fund, as provided in this Agreement, will constitute a reorganization within the meaning of Section 368(a)(1)(C) or Section 368(a)(1)(D) of the Code and with respect to the reorganization, the Prime Value Fund and the Prime Obligations Fund will each be considered "a party to a reorganization" within the meaning of Section 368(b) of the Code; (ii) in accordance with Sections 361(a), 361(c)(1) and 357(a) of the Code, no gain or loss will be recognized by the Prime Value Fund as a result of such transactions; (iii) in accordance with Section 1032 of the Code, no gain or loss will be recognized by the Prime Obligations Fund as a result of such transactions; (iv) in accordance with Section 354(a)(1) of the Code, no gain or loss will be recognized by the shareholders of the Prime Value Fund on the distribution to them by the Prime Value Fund of shares of the Prime Obligations Fund in exchange for their shares of the Prime Value Fund; (v) in accordance with Section 358(a)(1) of the Code, the basis of the Prime Obligations Fund shares received by each shareholder of the Prime Value Fund will be the same as the basis of the shareholder's Prime Value Fund shares immediately prior to the transactions; (vi) in accordance with Section 362(b) of the Code, the basis of the Prime Value Fund Assets to the Prime Obligations Fund will be the same as the basis of the Prime Value Fund Assets in the hands of the Prime Value Fund immediately prior to the exchange; (vii) in accordance with Section 1223 of the Code, a shareholder's holding period for the Prime Obligations Fund shares will be determined by including the period for which the shareholder held the shares of the Prime Value Fund exchanged therefor, provided that the shareholder held such shares of the Prime Value Fund as a capital asset; and (viii) in accordance with Section 1223 of the Code, the holding period of the Prime Obligations Fund with respect to the Prime Value Fund Assets will include the period for which the Prime Value Fund Assets were held by the Prime Value Fund.

(f) The N-14 Registration Statement shall have become

effective under the 1933 Act and no stop order suspending such effectiveness shall have been instituted or, to the knowledge of MMOT, contemplated by the SEC and the parties shall have received all permits and other authorizations necessary under state securities laws to consummate the transactions contemplated by this Agreement.

- (g) The President or Vice President of Pacific Horizon shall have certified that Pacific Horizon has performed and complied in all material respects with each of its agreements and covenants required by this Agreement to be performed or complied with by it prior to or at the Valuation Time and the Effective Time of the Reorganization.
- (h) At the Effective Time of the Reorganization the number of Prime Value Fund shares outstanding is at least 60% of the number of Prime Value Fund Shares outstanding on May 30, 1995.

10. Pacific Horizon Conditions. The obligations of Pacific Horizon hereunder shall be subject to the following conditions precedent:

- (a) This Agreement and the transactions contemplated by this Agreement shall have been approved by the Board of Trustees of MMOT and by the shareholders of the Prime Value Fund of Pacific Horizon, both in the manner required by law.
- (b) All representations and warranties of MMOT made in this Agreement shall be true and correct in all material respects as if made at and as of the Valuation Time and the Effective Time of the Reorganization. As of the Valuation Time and the Effective Time of the Reorganization there shall have been no material adverse change in the financial position of the Prime Obligations Fund since the date of the financial statements referred to in Section 5(f) other than those changes incurred in the ordinary course of business as an investment company since the date of the financial statements referred to in Section 5(f). No action, suit or other proceeding shall be threatened or pending before any court or governmental agency in which it is sought to restrain or prohibit, or obtain damages or other relief in connection with, this Agreement or the transactions contemplated herein. Pacific Horizon shall have received a certificate from the President or Vice



President of MMOT stating that each of the conditions set forth in this Section 10(a) and Section 10(b) have been met.

- (c) Pacific Horizon shall have received an opinion of Dickstein, Shapiro & Morin, L.L.P., addressed to Pacific Horizon in the form reasonably satisfactory to it and dated the Effective Time of the Reorganization, substantially to the effect that: (i) MMOT is a Massachusetts business trust duly organized and validly existing under the laws of the Commonwealth of Massachusetts; (ii) the shares of the Prime Obligations Fund to be delivered to the Prime Value Fund as provided for by this Agreement are duly authorized and upon delivery will be validly issued, fully paid and non-assessable by the Prime Obligations Fund and to such counsel's knowledge, no shareholder of MMOT has any option, warrant or pre-emptive right to subscription or purchase in respect thereof; (iii) this Agreement has been duly authorized, executed and delivered by MMOT and represents a legal, valid and binding contract, enforceable in accordance with its terms, subject to the effect of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors' rights generally and court decisions with respect thereto and such counsel shall express no opinion with respect to the application of equitable principles in any proceeding, whether at law or in equity or with respect to the provisions of this Agreement intended to limit liability for particular matters to the Prime Obligations Fund and its assets, including but not limited to Sections 1(a), 19 and 20 of this Agreement; (iv) the execution and delivery of this Agreement did not, and the consummation of the transactions contemplated by this Agreement will not, violate the Declaration of Trust or By-laws of MMOT, or any material agreement known to such counsel to which MMOT is a party or by which MMOT is bound; and (v) to such counsel's knowledge no consent, approval, authorization or order of any court or governmental authority is required for the consummation by MMOT of the transactions contemplated by this Agreement, except such as have been obtained under the 1933 Act, the 1934

Act, the 1940 Act, the rules and regulations under those Acts and such as may be required under the state securities laws. Such opinion may rely on the opinion of other counsel to the extent set forth in such opinion, provided such other counsel is reasonably acceptable to Pacific Horizon.

- (d) Pacific Horizon shall have received an opinion of Drinker Biddle & Reath, addressed to MMOT and Pacific Horizon in the form reasonably satisfactory to them and dated the Effective Time of the Reorganization, with respect to the matters specified in Section 9(e).
- (e) The N-14 Registration Statement shall have become effective under the 1933 Act and no stop order suspending such effectiveness shall have been instituted, or to the knowledge of MMOT, contemplated by the SEC and the parties shall have received all permits and other authorizations necessary under state securities laws to consummate the transactions contemplated by this Agreement.
- (f) The President or Vice President of MMOT shall have certified that MMOT has performed and complied in all material respects with each of its agreements and covenants required by this Agreement to be performed or complied with by it prior to or at the Valuation Time and the Effective Time of the Reorganization.

11. Tax Documents. Pacific Horizon shall deliver to MMOT at the Effective Time of the Reorganization confirmations or other adequate evidence as to the adjusted tax basis of the Prime Value Fund Assets delivered to the Prime Obligations Fund in accordance with the terms of this Agreement.

12. Further Assurances. Subject to the terms and conditions herein provided, each of the parties hereto shall use its best efforts to take, or cause to be taken, such action, to execute and deliver, or cause to be executed and delivered, such additional documents and instruments and to do, or cause to be done, all things necessary, proper or advisable under the provisions of this Agreement and under applicable law to consummate and make effective the transactions contemplated by this Agreement, including without limitation, delivering and/or causing to be delivered to MMOT, each account, book, record or other document of Pacific Horizon required to be maintained by Section 31(a) of the 1940 Act and Rules 31a-1 to 31a-3 thereunder (regardless of whose possession they are in).

13. Termination of Representations and Warranties. The representations and warranties of the parties set forth in this Agreement shall terminate upon the delivery of the Prime Value Fund Assets to the Prime Obligations Fund and

the issuance of the shares of the Prime Obligations Fund at the Effective Time of the Reorganization.

14. Termination of Agreement. This Agreement may be terminated by a party at any time at or prior to the Effective Time of the Reorganization by a vote of a majority of its Board of Trustees or Directors, as applicable, as provided below:

- (a) By MMOT if the conditions set forth in Section 9 are not satisfied as specified in said Section;
- (b) By Pacific Horizon if the conditions set forth in Section 10 are not satisfied as specified in said Section; or
- (c) If the Effective Time of the Reorganization has not occurred on or before \_\_\_\_\_.

This Agreement may be terminated at any time by the mutual consent of the parties.

15. Amendment and Waiver. At any time prior to or (to the fullest extent permitted by law) after approval of this Agreement by the shareholders of Pacific Horizon (a) the parties hereto may, by written agreement authorized by their respective Boards of Trustees or Directors, as applicable, and with or without the approval of their shareholders, amend any of the provisions of this Agreement, and (b) any party may waive any breach by any other party or the failure to satisfy any of the conditions to its obligations (such waiver to be in writing and authorized by the President or Vice President of the waiving party with or without the approval of such party's shareholders).

16. Governing Law. This Agreement and the transactions contemplated hereby shall be governed, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

17. Successors and Assigns. This Agreement shall be binding upon the respective successors and permitted assigns of the parties hereto. This Agreement and the rights, obligations and liabilities hereunder may not be assigned by any party without the consent of all other parties.

18. Beneficiaries. Nothing contained in this Agreement shall be deemed to create rights in persons not parties hereto, other than the successors and permitted assigns of the parties.

19. MMOT Liability.

- (a) The names "Money Market Obligations Trust" and "Trustees of Money Market Obligations Trust" refer respectively to the trust created and the trustees, as trustees but not individually or personally, acting from time to time under a Declaration of Trust dated October 3, 1988, which is hereby referred to and a copy of which is on file at the office of the State Secretary of the

Commonwealth of Massachusetts and at the principal office of MMOT. The obligations of MMOT entered into in the name or on behalf thereof by any of the trustees, representatives or agents are made not individually, but in such capacities, and are not binding upon any of the trustees, shareholders or representatives of MMOT personally, but bind only the trust property, and all persons dealing with any series of shares of MMOT must look solely to the trust property belonging to such series for the enforcement of any claims against MMOT.

- (b) Each party specifically acknowledges and agrees that all obligations of MMOT under this Agreement are binding only with respect to the Prime Obligations Fund; that any liability of MMOT under this Agreement with respect to the Prime Obligations Fund, or in connection with the transactions contemplated herein with respect to the Prime Obligations Fund, shall be discharged only out of the assets of the Prime Obligations Fund; and that no other portfolio of MMOT, nor any individual shareholder of MMOT, including Prime Obligations Fund, shall be liable with respect to this Agreement or in connection with the transactions contemplated herein.

20. Pacific Horizon Liability.

- (a) Each party specifically acknowledges and agrees that all obligations of Pacific Horizon under this Agreement are binding only with respect to the Prime Value Fund; and that any liability of Pacific Horizon under this Agreement with respect to the Prime Value Fund, or in connection with the transactions contemplated herein with respect to the Prime Value Fund, shall be discharged only out of the assets of the Prime Value Fund and that no other portfolio of Pacific Horizon, nor any individual shareholder of Pacific Horizon, including Prime Value Fund, shall be liable with respect to this Agreement or in connection with the transactions contemplated herein.

21. Notices. All notices required or permitted herein shall be in writing and shall be deemed to be properly given when delivered personally or by telecopier to the party entitled to receive the notice or when sent by certified or registered mail, postage prepaid, or delivered to an internationally recognized overnight courier service, in each case properly addressed to the party entitled to receive such notice at the address or telecopier number stated below or to such other address or telecopier number as may hereafter be

furnished in writing by notice similarly given by one party to the other party

hereto:

If to Pacific Horizon:

Pacific Horizon Funds, Inc.  
c/o Concord Holding Corporation  
125 West 55th Street  
New York, NY 10019

With copies to:

Michael P. Malloy, Esq.  
Drinker Biddle & Reath  
1345 Chestnut Street  
Philadelphia, PA 19107  
Telecopier Number: (215) 988-2757

If to MMOT:

Money Market Obligations Trust  
c/o Federated Investors  
Federated Investors Tower  
Pittsburgh, PA 15222  
Telecopier Number: (412) 288-8141

With copies to:

Matthew G. Maloney, Esq.  
Dickstein, Shapiro & Morin, L.L.P.  
2101 L Street, N. W.  
Washington, D. C. 20037  
Telecopier Number: (202) 887-0689

22. Expenses.

With regard to the expenses incurred by Pacific Horizon and MMOT in connection with this Agreement and the transactions contemplated hereby, Bank of America National Trust and Savings Association shall be responsible for the payment of all such expenses.

23. Entire Agreement. This Agreement embodies the entire agreement and understanding of the parties hereto and supersedes any and all prior agreements, arrangements and understandings relating to matters provided for herein.

24. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their duly authorized officers designated below as of the date first written above.

PACIFIC HORIZON FUNDS, INC.

ATTEST:

\_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
President

MONEY MARKET OBLIGATIONS TRUST

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

BANK OF AMERICA NATIONAL TRUST AND SAVING ASSOCIATION, hereby joins in this Agreement with respect to, and agrees to be bound by, Section 22.

ATTEST:

\_\_\_\_\_  
SecretaryBy: \_\_\_\_\_  
Executive Vice President

Portfolio of Investments  
July 31, 1994 (unaudited)

</TABLE>  
<TABLE>  
<CAPTION>

Prime Obligations Fund Principal Amount	Pacific Horizon Prime Value Fund Principal Amount	Pro Forma Combined Principal Amount		Prime Obligations Fund Value	Pacific Horizon Prime Value Fund Value	Pro Forma Combined Value
Certificates of Deposit - 5.2%						
Banking - 5.2%						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$	\$ 15,000,000	\$15,000,000	ABN-AMRO Bank NV, Chicago, 4.52%, 9/6/94	\$	\$14,999,410	\$14,999,410
	25,000,000	25,000,000	Canadian Imperial Bank of Commerce, New York, 4.54%, 8/12/94		25,000,000	25,000,000
20,000,00		20,000,000	Canadian Imperial Bank of Commerce, Toronto, 3.52%, 8/5/94	20,000,000		20,000,000
	20,000,000	20,000,000	Mitsubishi Bank, Ltd., New York, 4.78%, 9/6/94		20,001,165	20,001,165
	15,000,000	15,000,000	NBD Bank of North America, Detroit, 4.572%, 8/18/94		15,000,000	15,000,000
5,000,000		5,000,000	Rabobank Nederland, Utrecht Bank, 3.53%, 8/16/94	4,999,960		4,999,960
	20,000,000	20,000,000	Sanwa Bank, Ltd., New York, 4.57%, 8/30/94		19,999,840	19,999,840
			Total Certificates of deposit	24,999,960	95,000,415	120,000,375
*Commercial paper - 53.6%						
	30,000,000	30,000,000	Agriculture - 1.3%			
			Cargill, Inc., 4.27%, 8/15/94		29,950,183	29,950,183
25,000,000		25,000,000	Banking - 9.5%			
			ABN AMRO N.A., Finance, Inc., (Guaranteed by ABN AMRO Bank N.V., Amsterdam), 4.55%, 9/21/94	24,840,625		24,840,625
	8,000,000	8,000,000	AKZO America, Inc., 4.47%, 8/18/94		7,983,113	7,983,113
	40,000,000	40,000,000	Bankers Trust New York Corp., 4.34%-4.58%, 8/19/94 - 9/1/94		39,877,722	39,877,722
5,000,000		5,000,000	Bank of Nova Scotia, Toronto, 5.20%, 1/9/95	4,886,629		4,886,629
59,000,000	25,000,000	84,000,000	Canadian Imperial Holdings, Inc., (Guaranteed by Canadian Imperial Bank of Commerce, Toronto), 3.34%-4.70%, 8/3/94-10/24/94	58,603,003	24,952,867	83,555,870
24,700,000		24,700,000	City of Cleveland, (Union Bank of Switzerland, Zurich LOC), 4.56%, 9/7/94	24,700,000		24,700,000
4,000,000		4,000,000	Comdisco, Inc., (Union Bank of Switzerland, Zurich LOC), 4.09%, 9/22/94	3,976,831		3,976,831
2,000,000		2,000,000	PEMEX Capital, Inc., (Swiss Bank Corp., New York, NY LOC), 3.43%, 8/2/94	1,999,812		1,999,812
24,871,000		24,871,000	Queensland Alumina Ltd., (Credit Suisse, Zurich LOC), 4.34%-4.85%, 8/2/94-10/14/94	\$24,771,713	\$	\$ 24,771,713
2,000,000		2,000,000	Toronto Dominion Holdings (USA), Inc., 5.11%, 11/9/94	1,972,278		1,972,278
			TOTAL	145,750,891	72,813,702	218,564,593
	20,000,000	20,000,000	Education - 0.9%			
			Harvard University, 4.34%, 8/18/94		19,959,011	19,959,011
46,700,000		46,700,000	Finance-Automotive - 4.2%			
			Ford Credit Receivables Funding Inc., 4.28%-4.54%, 8/26/94-10/7/94	46,471,317		46,471,317
	30,000,000	30,000,000	Ford Motor Credit Co., 4.48%-4.50%, 8/15/94 - 8/23/94		29,937,622	29,937,622
20,000,000		20,000,000	New Center Asset Trust, A1+P1 Series, 4.73%, 8/15/94	19,963,600		19,963,600
			TOTAL	66,434,917	29,937,622	96,372,539
	30,000,000	30,000,000	Finance-Commercial - 23.7%			
			American Express Credit Corp., 4.28%, 8/15/94		29,950,067	29,950,067
	25,357,000	25,357,000	Banc One Funding Corp., 4.40%, 8/15/94		25,291,917	25,291,917
73,500,000		73,500,000	Asset Securitization Cooperative Corp.,			

	5,000,000	5,000,000	4.00%-5.13%, 8/4/94-1/19/95	72,823,213		72,823,213
	10,066,000	10,066,000	BNP Canada, 4.48%, 8/24/94		4,985,689	4,985,689
			BTR Dunlop Finance, Inc., 4.33%, 8/15/94		10,049,050	10,049,050
13,000,000	13,000,000	13,000,000	Beta Finance, Inc., 4.75%, 10/25/94	12,855,736		12,855,736
10,000,000	10,000,000	10,000,000	CIESCO, Inc., 4.06%, 9/20/94	9,944,722		9,944,722
89,000,000	89,000,000	89,000,000	CIT Group Holdings Inc., 3.43% - 4.91%, 9/7/94-12/19/94	88,193,429		88,193,429
	14,000,000	14,000,000	Commerzbank U.S. Finance, Inc., 4.45%-4.50%, 8/17/94		13,972,222	13,972,222
9,000,000	9,000,000	9,000,000	Corporate Asset Funding Co., Inc. (CAFCO), 4.18%-5.183%, 9/27/94-1/5/95	8,863,916		8,863,916
	30,000,000	30,000,000	Eiger Capital Corp., 4.50%, 8/15/94	29,947,500		29,947,500
75,500,000	75,500,000	75,500,000	General Electric Capital Corp., 3.45%-5.33%, 8/9/94-1/18/95	74,528,902		74,528,902
	20,000,000	20,000,000	General Electric Capital Corp., 4.40%, 8/24/94		19,943,778	19,943,778
	10,000,000	10,000,000	Grand Metropolitan Investment Corp., 4.47%, 8/31/94		9,962,750	9,962,750
	19,000,000	19,000,000	Hertz Corp., 4.52%, 8/11/94		18,976,145	18,976,145
20,000,000	20,000,000	20,000,000	ITT Financial Corp., 4.25%, 8/1/94	20,000,000		20,000,000
	40,000,000	40,000,000	National Rural Utilities Cooperative Finance Corp., 4.35%-4.45%, 8/2/94-8/15/94		39,963,694	39,963,694
	25,000,000	25,000,000	PHH Corp., 4.50%, 8/16/94		24,953,125	24,953,125
	15,000,000	15,000,000	Swiss Bank Corporation Finance Delaware Inc., 4.50%, 8/24/94		14,956,875	14,956,875
	19,364,000	19,364,000	Woodside Finance Ltd., 4.70%, (National Australia Bank LOC), 9/9/94		19,265,405	19,265,405
			Total	287,209,918	262,218,217	549,428,135
			Finance-Retail - 12.9%			
22,000,000	30,000,000	52,000,000	Associates Corp. of North America, 4.47%-4.50%, 8/12/94-9/13/94	21,883,852	29,958,750	51,842,602
	4,000,000	4,000,000	Fuji Photo Film Finance U.S.A., Inc., 4.45%, 9/16/94		3,977,256	3,977,256
	35,000,000	35,000,000	Merrill Lynch & Co., Inc., 4.37%-4.50%, 8/15/94-8/22/94		34,926,763	34,926,763
	20,000,000	20,000,000	Penney (J.C.) Funding Corp., 4.45%, 8/16/94		19,962,917	19,962,917
	39,000,000	39,000,000	Xerox Credit Corp., 4.34%, 8/15/94		38,934,177	38,934,177
			Total	21,883,852	127,759,863	149,643,715
			Food & Beverage - 0.9%			
20,000,000	20,000,000	20,000,000	Anheuser-Busch Companies, Inc., 3.51%-3.54%, 9/7/94-9/9/94		19,927,767	19,927,767
			Insurance-4.8%			
20,000,000	20,000,000	20,000,000	American General Corp., 4.22%, 8/1/94	20,000,000		20,000,000
22,591,000	22,591,000	22,591,000	Prospect Street Senior Loan Portfolio, L.P., (Guaranteed by Financial Security Assurance, Inc.), 3.34%-4.97%, 8/1/94-11/28/94		22,448,839	22,448,839
69,000,000	69,000,000	69,000,000	Prudential Funding Corp., 4.13%-5.01%, 10/3/94-1/20/95	68,073,991		68,073,991
			Total	110,522,830		110,522,830
			Pharmaceuticals-0.9%			
11,000,000	11,000,000	11,000,000	Schering Corp., 4.29%, 10/18/94	10,899,900		10,899,900
	10,000,000	10,000,000	Smithkline Beecham Corp., 4.44%, 8/15/94		9,982,733	9,982,733
			Total	10,899,900	9,982,733	20,882,633
			Utilities-1.0%			
14,000,000	14,000,000	14,000,000	Ameritech Corp., 4.81%, 12/12/94	13,756,906		13,756,906
	10,000,000	10,000,000	Ontario Hydro, 4.47%, 8/22/94		9,973,925	9,973,925
			Total	13,756,906	9,973,925	23,730,831
			Total Commercial Paper	676,386,981	562,595,256	1,238,982,237

\*\*Variable Rate Instruments-22.4%

			Banking-16.3%			
4,100,000	4,100,000	4,100,000	500 South Front St. L.P., Series A, (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	4,100,000		4,100,000
7,000,000	7,000,000	7,000,000	500 South Front St. L.P., Series B, (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	7,000,000		7,000,000
13,156,000	13,156,000	13,156,000	Adesa Funding Corp., (Bank One, Indianapolis, IN LOC), 4.72%, 8/4/94	13,156,000		13,156,000
8,750,000	8,750,000	8,750,000	Alexandria Executive Club L.P., (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	8,750,000		8,750,000
	10,000,000	10,000,000	American Express Centurion Bank, Delaware, 4.50%, 8/26/94		10,000,000	10,000,000
	10,000,000	10,000,000	Bank One Texas N.A., Dallas, 4.45%, 8/1/94		10,000,000	10,000,000
16,900,000	16,900,000	16,900,000	Beverly California Corp., (PNC Bank, N.A. LOC), 4.72%, 8/1/94	16,900,000		16,900,000
4,085,000	4,085,000	4,085,000	Eastwinds Investment, Ltd., (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	4,085,000		4,085,000
	100,000,000	100,000,000	Goldman Sachs Group, L.P., 4.437%, 8/1/94		100,000,000	100,000,000
2,485,000	2,485,000	2,485,000	Grote Family, L.P., (Huntington National			

24,000,000	24,000,000	Bank, Columbus, OH LOC), 4.80%, 8/4/94	2,485,000		2,485,000
		Holy Cross Health System Corp., (Swiss Bank Corp., New York, NY LOC), 4.95%, 8/3/94	24,000,000		24,000,000
5,000,000	5,000,000	Hunt Club Apartments, Inc., (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	5,000,000		5,000,000
4,800,000	25,000,000	J.P. Morgan & Co., Delaware, 4.58%, 8/2/94		24,985,575	24,985,575
8,600,000	4,800,000	Kokosing Construction Co., Inc., (National City Bank, Cleveland, OH LOC), 4.55%, 8/4/94	4,800,000		4,800,000
	8,600,000	Mississippi Business Finance Corp., Comerica Bank LOC), 4.80%, 8/4/94	8,600,000		8,600,000
	15,000,000	NDB Bank of North America, Detroit, 4.57%, 8/15/94		14,999,983	14,999,983
5,000,000	5,000,000	Olen Corp., (National City Bank, Cleveland, OH LOC), 4.55%, 8/4/94	5,000,000		5,000,000
29,000,000	29,000,000	PHH/CFC Leasing, Inc., (Societe Generale, Paris LOC), 4.78%, 8/3/94	29,000,000		29,000,000
2,800,000	2,800,000	Ramsey Real Estate Enterprises, (National City Bank, KY LOC), 4.55%, 8/4/94	2,800,000		2,800,000
7,900,000	7,900,000	Roby Company, Ltd. Partnership, (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	7,900,000		7,900,000
13,750,000	13,750,000	Rooker, J.W., (Wachovia Bank of Atlanta, GA, N.A. LOC). 4.78%, 8/3/94	13,750,000		13,750,000
7,360,000	7,360,000	Shenandoah Partners L.P., (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	7,360,000		7,360,000
35,000,000	35,000,000	SMM Trust, Series 1993-B (Guaranteed by Morgan Guaranty), 4.86%, 8/12/94	35,000,000		35,000,000
15,981,000	15,981,000	Vista Funding Corp., (Bank One, Akron, OH N.A. LOC), 4.72%, 8/4/94	15,981,000		15,981,000
2,500,000	2,500,000	YMCA of Central, OH, (Huntington National Bank, Columbus, OH LOC), 4.80%, 8/4/94	2,500,000		2,500,000
		Total	218,167,000	159,985,558	378,152,558
		Electrical Equipment-1.9%			
11,111,837	11,111,837	GS Funding Corp., (Guaranteed by General Electric Co.), 4.72%, 8/1/94	11,111,837		11,111,837
6,000,000	6,000,000	Lauda Air, (Guaranteed by General Electric Co.), 4.74%, 8/1/94	6,000,000		6,000,000
25,909,392	25,909,392	Northwest Airlines, Inc., (Guaranteed by General Electric Co.), 4.74%, 8/1/94	25,909,392		25,909,392
		Total	43,021,229		43,021,229
		Finance-Automotive-3.1%			
32,000,000	32,000,000	Carco Auto Loan Master Trust, Series 1993-2, 4.65%, 8/15/94	32,000,000		32,000,000
40,000,000	40,000,000	Money Market Auto Loan Trust, 4.73%, 8/15/94	40,000,000		40,000,000
		Total	72,000,000		72,000,000
		Insurance-1.1%			
25,000,000	25,000,000	(a) Peoples Security Life Insurance, 4.58%, 8/1/94	25,000,000		25,000,000
		Total Variable Rate Instruments	358,188,229	159,985,558	518,173,787
		Short-Term Notes - 1.5%			
8,000,000	8,000,000	Banking-0.6%			
6,000,000	6,000,000	(a) A.P. Investment Co., 3.85%, 9/7/94	8,000,000		8,000,000
		Bayerische Landesbank Girozentrale, 3.625%, 12/9/94	6,000,770		6,000,770
		Total	14,000,770		14,000,770
		Finance-Retail - 0.3%			
5,000,000	5,000,000	American General Finance Corp., 3.53%, 9/15/94	5,035,655		5,035,655
2,800,000	2,800,000	Associates Corp. of North America, 3.63%-3.65%, 11/15/94-12/1/94	2,831,615		2,831,615
		Total	7,867,270		7,867,270
		Government Agency-0.6%			
5,000,000	5,000,000	Nebraska Higher Education Loan Program, Inc., 4.79%, 8/2/94		5,000,000	5,000,000
5,000,000	5,000,000	Student Loan Marketing Association, 4.54%, 8/2/94		5,000,000	5,000,000
4,000,000	4,000,000	Tennessee Valley Authority, 3.82%, 10/1/94	4,208,934		4,208,934
		Total	4,208,934	10,000,000	14,208,934
		Total Short-Term Notes	26,076,974	10,000,000	36,076,974
		**Repurchase Agreements-17.8%			
40,000,000	40,000,000	Bear, Stearns and Co., Inc., 4.22%, dated 7/29/94, due 8/1/94	40,000,000		40,000,000
60,000,000	60,000,000	Daiwa Securities America, Inc., 4.20%, dated 7/29/94, due 8/1/94	60,000,000		60,000,000
60,000,000	60,000,000	Donaldson, Lufkin and Jenrette Securities Corp., 4.22%, dated 7/29/94, due 8/1/94	60,000,000		60,000,000
50,000,000	50,000,000	First National Bank of Chicago, 4.25%, dated 7/29/94, due 8/1/94		50,000,000	50,000,000





8,000,000		8,000,000	Royal Bank of Canada, Montreal, (Guaranteed by Royal Bank of Canada), 6.134%, 4/28/1995	7,884,760		7,884,760
18,000,000		18,000,000	Toronto Dominion Holdings (USA), Inc., (Guaranteed by Toronto-Dominion Bank), 5.203%-5.219%, 3/8/1995-3/9/1995	17,909,314		17,909,314
30,000,000		30,000,000	UBS Finance (Delaware), Inc., (Guaranteed by Union Bank of Switzerland, Zurich), 5.831%, 2/1/1995	30,000,000		30,000,000
			Total	180,735,595		180,735,595
			Diversified - 2.3%			
\$62,000,000	\$	\$62,000,000	Rockwell International Corp., 6.819%-6.824%, 6/2/1995-6/6/1995	\$ 60,606,300	\$	\$ 60,606,300
			Finance - Commercial - 15.4%			
83,500,000		83,500,000	Asset Securitization Cooperative Corp., 5.734%-6.219%, 2/10/1995-4/28/1995	82,982,257		82,982,257
44,500,000		44,500,000	Beta Finance, Inc., 5.340%-6.746%, 3/13/1995 - 6/27/1995	44,081,347		44,081,347
34,000,000		34,000,000	CIESCO, Inc., 5.235% - 6.262%, 2/9/1995 - 5/3/1995	33,543,504		33,543,504
50,000,000		50,000,000	CIT Group Holdings, Inc., 5.782%, 2/9/1995	49,936,111		49,936,111
13,400,000		13,400,000	Corporate Asset Funding Co., Inc. (CAFCO), 5.132% - 6.677%, 2/2/1995 - 7/26/1995	13,203,678		13,203,678
127,000,000		127,000,000	General Electric Capital Corp., 5.629% - 6.718%, 4/6/1995 - 7/17/1995	124,808,948		124,808,948
66,000,000		66,000,000	Sheffield Receivables Corp., 6.253% - 6.273%, 5/1/1995 - 5/2/1995	64,989,499		64,989,499
			Total	413,545,344		413,545,344
			Finance - Retail - 10.8%			
25,000,000		25,000,000	American General Finance Corp., 5.851%, 2/1/1995	25,000,000		25,000,000
60,000,000		60,000,000	Associates Corp. of North America, 5.831% - 6.404%, 2/1/1995 - 4/7/1995	59,601,875		59,601,875
53,700,000		53,700,000	Ford Credit Receivables Funding, Inc., 5.883% - 6.270%, 2/23/1995 - 5/4/1995	53,091,057		53,091,057
152,000,000		152,000,000	New Center Asset Trust, Al+Pl Series, 5.209% - 6.824%, 2/17/1995 - 7/21/1995	149,359,177		149,359,177
6,000,000		6,000,000	Norwest Financial Corp., 6.255%, 4/27/1995	5,912,875		5,912,875
			Total	292,964,984		292,964,984
			Foreign - 0.2%			
	5,000,000	5,000,000	Compagnie Francaise, 5.90%, 3/1/1995		4,977,056	4,977,056
			Insurance--2.1%			
43,789,000		43,789,000	Prospect Street Senior Portfolio, L.P., (Guaranteed by Financial Security Assurance, Inc.), 5.234% - 6.880%, 2/2/1995 - 7/19/1995	43,033,839		43,033,839
13,000,000		13,000,000	Prudential Funding Corp., 6.030%, 5/11/1995	12,790,863		12,790,863
			Total	55,824,702		55,824,702
			Photographic Products--0.6%			
	7,000,000	7,000,000	Fuji Photo Film Finance USA, Inc., 5.95%, 3/16/1995		6,950,251	6,950,251
	8,000,000	8,000,000	Konica Finance U.S. Corp., 5.75% (Mitsubishi Bank), 2/10/1995		7,988,500	7,988,500
			Total		14,938,751	14,938,751
			Total Commercial Paper	1,003,676,925	31,866,395	1,035,543,320
			Corporate Bonds--1.1%			
\$28,000,000 (a)	\$	\$28,000,000 (a)	Banking--1.1%			
			SMM Trust Series 1994-H, (Guaranteed by Morgan Guaranty Trust Co., NY), 6.034%, 2/22/1995	\$ 27,995,249	\$	\$ 27,995,249
			**Variable Rate Instruments--17.4%			
			Banking--11.0%			
4,045,000		4,045,000	500 South Front St. L.P., Series A, (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	4,045,000		4,045,000
6,500,000		6,500,000	500 South Front St. L.P., Series B, (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	6,500,000		6,500,000
12,064,000		12,064,000	Adesa Funding Corp., (Bank One, Indianapolis, IN LOC), 6.220%, 2/2/1995	12,064,000		12,064,000
8,610,000		8,610,000	Alexandria Executive Club L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	8,610,000		8,610,000
	10,000,000	10,000,000	American Express Centurion Bank, Delaware, 6.00%, 2/27/1995		10,000,000	10,000,000
	20,000,000	20,000,000	American Express Centurion Bank, Delaware, 5.88%, 2/13/1995		20,000,000	20,000,000
	10,000,000	10,000,000	Bank One, Texas, N.A., Dallas, 5.91%, 2/1/1995		10,000,000	10,000,000
16,900,000		16,900,000	Beverly California Corp., (PNC Bank, N.A. LOC), 6.304%, 2/6/1995	16,900,000		16,900,000
1,642,790		1,642,790	Bowling Green Manor L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	1,642,790		1,642,790
17,400,000		17,400,000	CMH Funding, (Huntington National Bank, Columbus, OH LOC), 7.040%, 7/3/1995	17,400,000		17,400,000
22,105,000		22,105,000	Capital One Funding Corp., (Bank One,			

			Cleveland, N.A. LOC), 6.560%, 2/2/1995	22,105,000		22,105,000
1,062,337	1,062,337		Clyde Manor L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	1,062,337		1,062,337
4,020,000	4,020,000		Eastwinds Investment, Ltd., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	4,020,000		4,020,000
	7,000,000	7,000,000	Goldman Sachs Group, L.P., 6.00%, 2/1/1995		7,000,000	7,000,000
2,485,000	2,485,000		Grote Family L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	2,485,000		2,485,000
5,000,000	5,000,000		Hunt Club Apartments, Inc., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/1/1995	5,000,000		5,000,000
	25,000,000	25,000,000	J.P. Morgan, Delaware, 6.00%, 2/7/1995		24,993,137	24,993,137
\$ 4,500,000	\$ 4,500,000	\$ 4,500,000	Kokosing Construction Co., Inc., (National City Bank, Cleveland, OH LOC), 6.200%, 2/1/1995	\$ 4,500,000	\$	\$ 4,500,000
8,600,000	8,600,000		Mississippi Business Finance Corp., (Comercia Bank, Detroit, MI LOC), 6.360%, 2/2/1995	8,600,000		8,600,000
5,000,000	5,000,000		Olen Corp., (National City Bank, Cleveland, OH LOC), 6.20%, 2/1/1995	5,000,000		5,000,000
29,000,000	29,000,000		PHH/CFC Leasing, Inc., (Banque Nationale de Paris LOC), 6.320%, 2/1/1995	29,000,000		29,000,000
2,350,000	2,350,000		Ramsey Real Estate Enterprises, (National City Bank, Kentucky LOC), 6.200%, 2/2/1995	2,350,000		2,350,000
7,900,000	7,900,000		Roby Company Ltd. Partnership, (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	7,900,000		7,900,000
13,450,000	13,450,000		Rooker, J.W., (Wachovia Bank of Georgia NA, Atlanta LOC), 6.339%, 2/1/1995	13,450,000		13,450,000
20,000,000 (a)	20,000,000 (a)		SMM Trust 1994-B, (Guaranteed by Morgan Guaranty Trust Co., NY), 5.892%, 2/11/1995	19,994,010		19,994,010
7,040,000	7,040,000		Shenandoah Partners L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	7,040,000		7,040,000
6,100,000	6,100,000		State Industrial Development Authority (Alabama) Miltope Project, Series 1994, (First Alabama Bank, Birmingham LOC), 6.610%, 2/2/1995	6,100,000		6,100,000
3,526,000	3,526,000		Vista Funding Corp., (Bank One, Akron, N.A. LOC), 6.220%, 2/2/1995	3,526,000		3,526,000
6,678,000	6,678,000		Vista Funding Corp., (Fifth Third Bank of Northwestern OH LOC), 6.360%, 2/2/1995	6,678,000		6,678,000
1,011,431	1,011,431		Wauseon Manor II L.P., (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	1,011,431		1,011,431
3,775,000	3,775,000		Wexner Heritage House, (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	3,775,000		3,775,000
2,500,000	2,500,000		YMCA of Central, OH, (Huntington National Bank, Columbus, OH LOC), 6.360%, 2/2/1995	2,500,000		2,500,000
			Total	223,258,568	71,993,137	295,251,705
			Electrical Equipment--1.6%			
13,058,538	13,058,538		GS Funding Corp., (Guaranteed by General Electric Co.), 6.304%, 2/6/1995	13,058,537		13,058,537
6,000,000	6,000,000		Lauda Air, (Guaranteed by General Electric Co.), 6.337%, 2/1/1995	6,000,000		6,000,000
25,388,464	25,388,464		Northwest Airlines, Inc., (Guaranteed by General Electric Co.), 6.337%, 2/6/1995	25,388,464		25,388,464
			Total	\$ 44,447,001	\$	\$ 44,447,001
			Finance - Automotive--2.7%			
\$32,000,000	\$ 32,000,000	\$ 32,000,000	Carco Auto Loan Master Trust, Series 1993-2, 5.791%, 2/15/1995	32,000,000		32,000,000
40,000,000	40,000,000		Money Market Auto Loan Trust, 5.896%, 2/15/1995	40,000,000		40,000,000
			Total	72,000,000		72,000,000
			Government - 0.2%			
	5,000,000	5,000,000	Nebraska Higher Education Loan Program, Inc., 6.21%, 2/7/1995		5,000,000	5,000,000
			Insurance -- 0.9%			
25,000,000 (a)	25,000,000 (a)		Peoples Security Life Insurance, 6.290%, 2/1/1995	25,000,000		25,000,000
			Municipal--1.0%			
26,700,000 (a)	26,700,000 (a)		City of Columbus, Ohio, 6.610%, 2/2/1995	26,700,000		26,700,000
			Total Variable Rate Instruments	391,405,569	76,993,137	468,398,706
***Repurchase Agreements--43.3%						
	8,000,000	8,000,000	Barclays de Zoete Wedd Securities, Inc., 5.800%, dated 1/31/1995, due 2/1/1995		8,000,000	8,000,000
130,000,000	130,000,000		Chase Securities, Inc., 5.800%, dated 1/31/1995, due 2/1/1995	130,000,000		130,000,000
218,000,000	218,000,000		Chemical Banking Corp., 5.820%, dated 1/31/1995, due 2/1/1995	218,000,000		218,000,000
	8,000,000	8,000,000	Dean Witter Reynolds, Inc., 5.750%, dated 1/31/1995, due 2/1/1995		8,000,000	8,000,000
250,000,000	8,000,000	258,000,000	First Chicago Capital Markets, Inc., 5.820%-5.830%, dated 1/31/1995, due 2/1/1995	250,000,000	8,000,000	258,000,000

130,000,000	130,000,000	Fuji Government Securities, Inc., 5.820%, dated 1/31/1995, due 2/1/1995	130,000,000	130,000,000
250,000,000	250,000,000	Lehman Government Securities, Inc., 5.830%, dated 1/31/1995, due 2/1/1995	250,000,000	250,000,000
8,000,000	8,000,000	Lehman Government Securities, Inc., 5.830%, dated 1/31/1995, due 2/1/1995	8,000,000	8,000,000
8,000,000	8,000,000	Merrill Lynch Government Securities Inc., 5.750%, dated 1/31/1995, due 2/1/1995	8,000,000	8,000,000
90,000,000	90,000,000	Nationsbank of North Carolina N.A., 5.820%, dated 1/31/1995, due 2/1/1995	90,000,000	90,000,000
37,000,000	37,000,000	Nomura Securities, International, Inc., 5.850%, dated 1/31/1995, due 2/1/1995	37,000,000	37,000,000
20,500,000	20,500,000	State Street Bank and Trust Co., Boston, MA, 5.820%, dated 1/31/1995, due 2/1/1995	20,500,000	20,500,000
		Total Repurchase Agreements	1,088,500,000	77,000,000 1,165,500,000
		Total Investments, at amortized cost(b)	\$2,511,577,743	\$185,859,532 \$2,697,437,275

</TABLE>

\* Each issue shows the rate of discount at the time of purchase for discount issues, or the coupon for interest bearing issues.

\*\* Current rate and next reset date shown.

\*\*\* Repurchase agreements are fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investments in repurchase agreements of Prime Obligations Fund are through participation in joint accounts with other Federated Funds.

(a) Restricted Securities-Investments in Securities not registered under the Securities Act of 1933. At the end of the period, these securities amounted to \$74,700,000 which represents 3.2% of net assets.

(b) Also represents cost for federal tax purposes.

Note: The categories of investments are shown as a percentage of net assets (\$2,691,226,641) at January 31, 1995

The following abbreviation is used throughout this portfolio:

LOC --Letter of Credit

(See Notes which are an integral part of the Financial Statements.)

<TABLE>

<CAPTION>

Prime Obligations Fund  
Pacific Horizon Prime Value Fund  
Pro Forma Combining Statement of Assets and Liabilities  
July 31, 1994 (unaudited)

<S>	<C>	<C>	<C>	<C>
	Prime Obligations Fund	Pacific Horizon Prime Value Fund	Pro Forma Adjustments	Pro Forma Combined
Assets:				
Investments in other securities	\$1,085,652,144	\$ 827,581,229		\$1,913,233,373
Investments in repurchase agreements	184,350,000	227,317,000		411,667,000
Total investments, at amortized cost and value	1,270,002,144	1,054,898,229		2,324,900,373
Cash	0	615		615
Interest receivable	3,014,604	1,170,576		4,185,180
Deferred expenses	790	45,988		46,778
Total assets	1,273,017,538	1,056,115,408		2,329,132,946
Liabilities:				
Advisory fees payable	0	32,703		32,703
Administration fees payable	0	32,703		32,703
Payable to Bank	8,404,957	0		8,404,957
Dividends payable	3,942,438	2,986,752		6,929,190
Payable for Fund shares redeemed	3,693	0		3,693
Accrued expenses	299,979	77,451		377,430
Total liabilities	12,651,067	3,129,609		15,780,676
Net Assets	\$1,260,366,471	\$1,052,985,799		\$2,313,352,270
Net Assets:				
Institutional Shares	\$1,250,979,261	--	1,052,985,799	\$2,303,965,060
Institutional Service Shares	\$ 9,387,210	--	--	\$ 9,387,210
Pacific Horizon Shares	--	\$106,124,053	(106,124,053)	0
Horizon Shares	--	\$946,861,746	(946,861,746)	0
Shares Outstanding:				
Institutional Shares	1,250,979,261	--	1,053,279,259	2,304,258,520
Institutional Service Shares	9,387,210	--	--	9,387,210
Pacific Horizon Shares	--	106,153,629	(106,153,629)	0
Horizon Shares	--	947,125,630	(947,125,630)	0

Net Asset Value, Offering Price, and Redemption Proceeds Per Share:	\$ 1.00	\$ 1.00	\$ 1.00
--	---------	---------	---------

(See Notes to Pro Forma Financial Statements)  
</TABLE>

	<C>	<C>	<C>	<C>
	Prime Obligations Fund	Pacific Horizon Prime Value Fund	Pro Forma Adjustments	Pro Forma Combined
<b>Assets:</b>				
Investments in repurchase agreements	\$1,088,500,000	\$ 77,000,000		\$1,165,500,000
Investments in other securities	1,423,077,743	108,859,532		1,531,937,275
Total investments, at amortized cost and value	2,511,577,743	185,859,532		2,697,437,275
Cash	0	185		185
Interest receivable	2,937,444	327,512		3,264,956
Receivable from Adviser	0	34,912		34,912
Receivable for shares sold	39,237	0		39,237
Deferred expenses	0	49,193		49,193
Total assets	2,514,554,424	186,271,334		2,700,825,758
<b>Liabilities:</b>				
Dividends payable	0	866,472		866,472
Income distribution payable	8,317,966	0		8,317,966
Accrued expenses	43,401	65,681		109,082
Payable to Bank	305,597	0		305,597
Total liabilities	8,666,964	932,153		9,599,117
Net Assets	\$2,505,887,460	\$185,339,181		\$2,691,226,641
<b>Net Assets:</b>				
Institutional Shares	\$2,348,306,099	--	185,339,181	\$2,533,645,280
Institutional Service Shares	\$ 157,581,361	--		\$ 157,581,361
Pacific Horizon Shares	--	\$ 70,548,544	( 70,548,544)	0
Horizon Shares	--	\$114,790,637	(114,790,637)	0
<b>Shares Outstanding:</b>				
Institutional Shares	2,348,306,099	--	185,633,178	2,533,939,277
Institutional Service Shares	157,581,361	--		157,581,361
Pacific Horizon Shares	--	70,823,680	( 70,823,680)	0
Horizon Shares	--	114,809,498	(114,809,498)	0
Net Asset Value, Offering Price, and Redemption Proceeds Per Share:	\$ 1.00	\$ 1.00		\$ 1.00

(See Notes to Pro Forma Financial Statements)  
</TABLE>

<TABLE>				
<CAPTION>				
Prime Obligations Fund				
Pacific Horizon Prime Value Fund				
Pro Forma Combining Statement of Operations				
Year Ended July 31, 1994 (unaudited)				
<S>	<C>	<C>	<C>	<C>
<C>	<C>	<C>	<C>	<C>
<b>Pacific</b>				
<b>Horizon</b>				
Prime Value	Pro Forma	Notes	Prime Obligations Pro Forma Fund	Combined
Fund	Adjustments			
<b>Investment Income:</b>				
Interest			\$ 43,573,931	\$
9,380,419	\$ 0		\$ 52,954,350	
<b>Expenses:</b>				
Investment advisory fee			2,368,688	
239,168	239,208	(a)	2,847,064	
<b>Administrative personnel and services fees and portfolio accounting fees</b>				
239,168	(72,929)	(b)	1,037,940	871,701
Custodian fees			134,035	
58,781	(34,822)	(c)	157,994	
Printing and postage			11,498	
62,793	(58,793)	(d)	15,498	
Legal fees			11,663	
67,002	(66,602)	(e)	12,063	

Directors'/Trustees' fees			4,244
29,479	(28,479)	(f)	5,244
Transfer agent and dividend disbursing agent fees			27,001
28,870	0		55,871
Share registration costs			247,815
19,427	0		267,242
Auditing fees			13,145
40,058	(40,058)	(g)	13,145
Other Expenses			89,649
39,096	(30,208)	(h)	98,537
Shareholder services fee/management fee - Institutional Shares/Pacific Horizon Shares			205,170
447,529	(406,867)	(i)	245,832
Shareholder services fee - Institutional Service Shares			652
0	0		652
Total expenses			3,985,261
1,271,371	(499,550)		4,757,082
Deduct-			
Waiver of investment advisory fee/expense reimbursements			1,615,921
820,324	(526,878)	(a)	1,909,367
Net expenses			2,369,340
451,047	27,328		2,847,715
Net investment income			41,204,591
8,929,372	(27,328)		50,106,635
Realized gain/(loss) on Investments			0
(289,567)	0		(289,567)
Net Increase in Net Assets			\$41,204,591
\$8,639,805	(27,328)		\$49,817,068

(See legend to the Statement of Operations)

(See Notes to Pro Forma Financial Statements)

</TABLE>

<TABLE>

<CAPTION>

Prime Obligations Fund  
Pacific Horizon Prime Value Fund  
Pro Forma Combining Statement of Operations  
Six Months Ended January 31, 1995 (unaudited)

<S>	<C>	<C>	<C>
<C>	<C>	Prime Obligations Fund	Pacific Horizon Prime Value Fund
Pro Forma	Notes	Combined	Pro Forma Adjustments
Investment Income:			
Interest		\$47,165,529	\$12,131,295
\$59,296,824			\$ 0
Expenses:			
Investment advisory fee		1,767,789	245,821
(a) 2,259,431			245,821
Administrative personnel and services fees and portfolio accounting fees		778,458	245,821
(b) 977,436			(46,843)
Custodian fees		85,117	50,256
(c) 102,988			(32,385)
Transfer agent and dividend disbursing agent fees		27,249	13,774
41,023			0
Printing and postage		5,250	20,784
(d) 7,250			(18,784)
Legal fees		11,158	23,137
(e) 11,158			(23,137)
Directors'/Trustees' fees		7,000	11,534
(f) 7,500			(11,034)
Auditing fees		6,375	18,295
(g) 6,375			(18,295)
Other Expenses		35,845	33,955
(h) 39,074			(30,726)
Shareholder Service fees - Institutional Service Shares		115,646	0
115,646			0
Shareholder Service fees/management fee - Institutional Shares/Pacific Horizon Shares		0	124,526
(i) 0			(124,526)
Share registration costs		194,606	8,003
			0

202,609				
Total expenses	3,034,493	795,906	(59,909)	
3,770,490				
Deduct-				
Waiver of investment advisory fee/expense reimbursements	1,150,753	216,934	27,421	
(a) 1,395,108				
Net expenses	1,883,740	578,972	(87,330)	
2,375,382				
Net investment income	45,281,789	11,552,323	87,330	
56,921,442				
Net realized gain/(loss) on investments	0	(537)	0	
(537)				
Net Increase in Net Assets	\$45,281,789	\$11,551,786	\$ 87,330	
\$56,920,905				

(See legend to the Statement of Operations)  
(See Notes to Pro Forma Financial Statements)  
</TABLE>

PRIME OBLIGATIONS FUND  
PACIFIC HORIZON PRIME VALUE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS (CONTINUED)  
YEAR ENDED JULY 31, 1994 AND SIX MONTHS ENDED JANUARY 31, 1995  
(UNAUDITED)

(a) Federated Management, Prime Obligations Fund's investment Advisor is entitled to receive for its services an annual investment advisory fee equal to 0.20% of the Prime Obligations Fund's average daily assets. The advisor may voluntarily choose to waive a portion of its fee. The advisor can modify or terminate this voluntary waiver at any time at its sole discretion.

(b) Administrative personnel and services fees for the combined fund would be charged an annual rate of 0.15 of 1% on the first \$250 million of average aggregate daily net assets of the Trust; 0.125 of 1% on the next \$250 million; 0.10 of 1% on the next \$250 million; and 0.075 of 1% on the average aggregate daily net assets of the Trust in excess of \$750 million, subject to a \$125,000 per portfolio and \$30,000 per each additional class of shares.

(c) State Street Bank and Trust Company is custodian for the securities and cash of the Fund. The custodian fee is based on a percentage of assets, plus out-of-pocket expenses.

(d) Printing and postage expenses are adjusted to reflect estimated savings to be realized by combining two portfolios into a single portfolio.

(e) Legal expenses are adjusted to reflect estimated savings to be realized by combining two portfolios into a single portfolio.

(f) Director expenses are adjusted to reflect estimated savings to be realized by combining two portfolios into a single portfolio.

(g) Adjustment to reflect audit charge for one portfolio only.

(h) Other expenses are adjusted to reflect estimated savings to be realized by combining two portfolios into a single portfolio.

(i) The Institutional Shares has a Shareholder Services Plan under which it may pay Federated Shareholder Services, an affiliate of Federated Investors, an amount not to exceed .25 of 1% of the average daily net asset value of the Institutional Shares. The distributor may voluntarily chose to waive a portion of its fee.

Prime Obligations Fund  
Pacific Horizon Prime Value Fund  
Notes to Pro Forma Financial Statements (Unaudited)

1. Basis of Combination

The unaudited Pro Forma Combining Portfolio of Investments, Statement of Assets and Liabilities and Statement of Operations ("Pro Forma Financial Statements") reflect the accounts of Prime Obligations Fund and Pacific Horizon Prime Value Fund (collectively, the "Funds") for the year ended July 31, 1994 and for the six months ended January 31, 1995. These statements have been derived from the books and records utilized in calculating daily net asset values at July 31, 1994 and for the six months ended January 31, 1995.

The Pro Forma Combining Portfolio of Investments, Statement of Assets and Liabilities and Statement of Operations should be read in conjunction with the historical financial statements of the Funds incorporated by reference in the Statement of Additional Information. The Funds follow generally accepted accounting principles applicable to management investment companies which are disclosed in the historical financial statements of each Fund.

The Pro Forma Financial Statements give effect to the proposed transfer of the assets of Pacific Horizon Prime Value Fund in exchange for shares of Prime Obligations Fund. Under generally accepted accounting principles, Prime Obligations Fund will be the surviving entity for accounting purposes with its historical cost of investment securities and results of operations being carried forward.

The Pro Forma Financial Statements have been adjusted to reflect the anticipated advisory and administration fee arrangements for the surviving entity. Certain other operating costs have also been adjusted to reflect anticipated expenses of the combined entity. Other costs which may change as a result of the reorganization are currently undeterminable.

For the fiscal year ended July 31, 1994, and January 31, 1995, the Prime Obligations Fund and Pacific Horizon Prime Value Fund paid investment advisory fees computed at the annual rate of .20% for Prime Obligations Fund and .10% of the Fund's net assets for the Pacific Horizon Prime Value Fund.

The advisor and administrator may voluntarily choose to waive a portion of their fees and reimburse certain operating expenses of Prime Obligations Fund and Pacific Horizon Prime Value Fund.

## 2. Shares of Beneficial Interest

The Pro Forma net asset value per share assumes the issuance of 1,260,366,471 and 2,505,887,460 shares of Prime Obligations (1,053,279,259 and 185,633,178 shares from Pacific Horizon Prime Value Fund) which would have been issued at July 31, 1994 and January 31, 1995, in connection with proposed reorganization.

## STATEMENT OF ADDITIONAL INFORMATION

Dated \_\_\_\_\_, 1995

Acquisition of the Assets of  
PRIME VALUE FUND,  
a portfolio of PACIFIC HORIZON FUNDS, INC.

By and in exchange for shares of  
PRIME OBLIGATIONS FUND,  
a portfolio of MONEY MARKET OBLIGATIONS TRUST

125 West 55th Street  
New York, New York 10019

This Statement of Additional Information dated \_\_\_\_\_, 1995, is not a prospectus. A Proxy Statement and Prospectus dated \_\_\_\_\_ 1995, related to the above-referenced matter may be obtained at no charge by calling Concord Holding Corporation at 1-800-332-3863. This Statement of Additional Information should be read in conjunction with such Proxy Statement and Prospectus.

## TABLE OF CONTENTS

1. Statements of Additional Information of the Pacific Horizon Shares of the Prime Value Fund and the Horizon Shares of the Prime Value Fund, dated July 1, 1995.
2. Annual Report of Prime Value Fund, dated February 28, 1995.
3. Combined Statement of Additional Information of Prime Obligations Fund (Institutional Shares and Institutional Service Shares), dated November 30, 1994.
4. Annual Report of Prime Obligations Fund, dated July 31, 1994.

The Statements of Additional Information of the Pacific Horizon Shares of the Prime Value Fund and the Horizon Shares of the Prime Value Fund, dated July 1, 1995 are incorporated herein by reference to Post-Effective Amendment No. 40 to Pacific Horizon Fund, Inc.'s Registration Statement on Form N-1A (1933 Act File 2-81110; 1940 Act File No. 811- 4293), which was filed with the Securities and Exchange Commission on June 21, 1995. The financial statements and notes thereto in the Annual Report of Prime Value Fund and the report of Price Waterhouse, LLP, are incorporated herein by reference. The Annual Report (1933 Act File No. 2-81110; 1940 Act File



No. 811-4293) was filed with the Securities and Exchange Commission on \_\_\_\_\_, 1995. Copies of these documents may be obtained free of charge by calling Concord Holding Corporation at 1-800-332-3863.

The Combined Statement of Additional Information of Prime Obligations Fund (Institutional Shares and Institutional Service Shares), dated November 30, 1994, is incorporated herein by reference to Post-Effective Amendment No. 11 to Money Market Obligations Trust's Registration Statement on Form N-1A (1933 Act File No. 33-31602; 1940 Act File No. 811- 5950), which was filed with the Securities and Exchange Commission on November 25, 1994. The Annual Report of Prime Obligations Fund and the report of Arthur Andersen LLP, are incorporated herein by reference. The Annual Report (1933 Act File No. 33-31602; 1940 Act File No. 811-5950) was filed with the Securities and Exchange Commission on \_\_\_\_\_, 1994. Copies of these documents may be obtained free of charge from Money Market Obligations Trust at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779, Telephone Number: 1-800-245-5000.

5. The pro forma financial statements required by Rule 11-01 of Regulation S-X (attached).

#### PART C - OTHER INFORMATION

##### Item 15. Indemnification

Indemnification is provided to officers and trustees of the Registrant pursuant to the Registrant's Declaration of Trust, except where such indemnification is not permitted by law. However, the Declaration of Trust does not protect the trustees from liabilities based on willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of their office.

Trustees and officers of the Registrant are insured against certain liabilities, including liabilities arising under the Securities Act of 1933 (the "Act").

Insofar as indemnification for liabilities arising under the Act may be permitted to trustees, officers, and controlling persons of the Registrant by the Registrant pursuant to the Declaration of Trust or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by trustees, officers, or controlling persons of the Registrant in connection with the successful defense of any act, suit, or proceeding) is asserted by such trustees, officers, or controlling persons in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Insofar as indemnification for liabilities may be permitted pursuant to Section 17 of the Investment Company Act of 1940 for trustees, officers, and

controlling persons of the Registrant by the Registrant pursuant to the Declaration of Trust or otherwise, the Registrant is aware of the position of the Securities and Exchange Commission as set forth in Investment Company Act Release No. IC-11330. Therefore, the Registrant undertakes that in addition to complying with the applicable provisions of the Declaration of Trust or otherwise, in the absence of a final decision on the merits by a court or other body before which the proceeding was brought, that an indemnification payment will not be made unless in the absence of such a decision, a reasonable determination based upon factual review has been made: (i) by a majority vote of a quorum of non-party trustees who are not interested persons of the Registrant; or (ii) by independent legal counsel in a written opinion that the indemnitee was not liable for an act of willful misfeasance, bad faith, gross negligence, or reckless disregard of duties. The Registrant further undertakes that advancement of expenses incurred in the defense of a proceeding (upon undertaking for repayment unless it is ultimately determined that indemnification is appropriate) against an officer, trustee, or controlling person of the Registrant will not be made absent the fulfillment of at least one of the following conditions: (i) the indemnitee provides security for his undertaking; (ii) the Registrant is insured against losses arising by reason of any lawful advances; or (iii) a majority of a quorum of disinterested non-party trustees or independent legal counsel in a written opinion makes a factual determination that there is reason to believe the indemnitee will be entitled to indemnification.

Item 16. Exhibits

1.1 Conformed Copy of Declaration of Trust of the Registrant dated October 3, 1988(1)

1.2 Conformed Copy of Amendment to the Declaration of Trust of the Registrant dated October 3, 1989(1)

1.3 Conformed Copy of Amendment No. 8 to the Declaration of Trust of the Registrant dated December 28, 1994(2)

2. Copy of Bylaws of the Registrant(1)

3. Not Applicable

4. Agreement and Plan of Reorganization is included as Appendix A to the Combined Proxy Statement and Prospectus of this Registration Statement\*

5. Not Applicable

- 6.1 Conformed Copy of Investment Advisory Contract of the Registrant, including conformed copies of Exhibits A through F to the Investment Advisory Contract(1)
- 6.2 Conformed Copy of Exhibit G to Investment Advisory Contract of the Registrant(3)
- 6.3 Conformed Copy of Investment Advisory Contract between Registrant and Federated Administrative Services dated March 1, 1995(4)
- 7.1 Conformed Copy of Distributor's Contract of the Registrant, including conformed copies of Exhibits A, B, and E to the Distributor's Contract(3)
- 7.2 Conformed Copy of Exhibits G and H to the Distributor's Contract of the Registrant(5)
- 7.3 Confirmed Copy of Exhibits C and D to the Distributor's Contract of the Registrant(4)
- 8. Not Applicable
- 9. Conformed Copy of Custodian Agreement of the Registrant(6)
- 10 Not Applicable
- 11. Opinion regarding legality of shares being issued\*
- 12. Form of Opinion regarding tax consequences of Reorganization\*
- 13.1 Conformed Copy of Transfer Agency and Service Agreement of the Registrant(6)
- 13.2 Conformed Copy of Fund Accounting Agreement of the Registrant(2)
- 13.3 Conformed Copy of Shareholder Services Plan of the Registrant dated June 1, 1994(5)
- 13.4 Conformed Copy of Shareholder Services Sub-Contract of the Registrant dated June 1, 1994(5)

- 13.5 Conformed Copy of Exhibit B to Shareholder Services Plan of the Registrant relating to Government Obligations Tax-Managed Fund, dated March 1, 1995(4)
- 14 (i) Conformed Copy of Consent of Arthur Andersen LLP, Independent Public Accountants\*
- (ii) Conformed Copy of Consent of Price Waterhouse LLP, Independent Accountants\*
- (iii) Conformed Copy of Consent of Drinker Biddle & Reath\*
15. Not Applicable
16. Conformed Copy of Power of Attorney(2)
- 17.1 Copy of Declaration under Rule 24f-2\*
- 17.2 Form of Proxy\*
- 17.3 Prospectuses for the: 1) Pacific Horizon Shares of the Prime Value Fund and 2) Horizon Shares of the Prime Value Fund dated July 1, 1995.\*
- 17.4 Statements of Additional Information for the: 1) Pacific Horizon Shares of the Prime Value Fund and 2) Horizon Shares of the Prime Value Fund and Treasury Fund, dated July 1, 1995.\*
- 17.5 Prospectus for the Institutional Shares of the Prime Obligations Fund dated November 30, 1994.(5)
- 17.6 Statement of Additional Information for the Institutional Shares and Institutional Service Shares of Prime Obligations Fund dated November 30, 1994.(5)

---

\* Filed electronically.

(1) Response is incorporated by reference to Registrant's Initial Registration Statement on Form N-1A filed October 20, 1989 (File Nos. 33-31602 and 811-5950).

(2) Response is incorporated by reference to Registrant's Post-Effective Amendment No. 12 on Form N-1A filed on February 21, 1995 (File Nos. 33-31602 and 811-5950).

(3) Response is incorporated by reference to Registrant's Post-Effective Amendment No. 7 on Form N-1A filed May 6, 1994 (File Nos. 33-31602 and 811-5950).

(4) Response is incorporated by reference to Registrant's Post-Effective Amendment No. 13 on Form N-1A filed May 5, 1995 (File Nos. 33-31602 and

(5) Response is incorporated by reference to Registrant's Post-Effective Amendment No. 11 on Form N-1A filed November 25, 1994 (File Nos. 33-31602 and 811-5950).

(6) Response is incorporated by reference to Registrant's Post-Effective Amendment No. 8 on Form N-1A filed June 1, 1994 (File Nos. 33-31602 and 811-5950).

Item 17. Undertakings

(1) The undersigned Registrant agrees that prior to any public reofferring of the securities registered through the use of a prospectus which is a part of this Registration Statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) of the Securities Act of 1933, the reofferring prospectus will contain the information called for by the applicable registration form for reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The undersigned Registrant agrees that every prospectus that is filed under paragraph (1) above will be filed as part of an amendment to the Registration Statement and will not be used until the amendment is effective, and that, in determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new Registration Statement for the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering of them.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant, Money Market Obligations Trust, has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pittsburgh, Commonwealth of Pennsylvania, on July 28, 1995.

MONEY MARKET OBLIGATIONS TRUST  
(Registrant)

By: /s/ Jeannette Fisher-Garber  
Jeannette Fisher-Garber, Assistant Secretary  
Attorney in Fact for John F. Donahue  
July 28, 1995

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated:

NAME	TITLE	DATE
By: /s/Jeannette Fisher-Garber		
Jeannette Fisher-Garber	Attorney In Fact	July 28, 1995
ASSISTANT SECRETARY	For the Persons	
	Listed Below	

NAME	TITLE	DATE
John F. Donahue*	Chairman and Trustee (Chief Executive Officer)	
J. Christopher Donahue*	President and Trustee	
Edward C. Gonzales*	Vice President and Treasurer (Principal Financial and Accounting Officer)	

Thomas G. Bigley\*                      Trustee

John T. Conroy, Jr.\*                      Trustee

William J. Copeland*	Trustee
James E. Dowd*	Trustee
Lawrence D. Ellis, M.D.*	Trustee
Edward L. Flaherty, Jr.*	Trustee
Peter E. Madden*	Trustee
Gregor F. Meyer*	Trustee
John E. Murray, Jr.*	Trustee
Wesley W. Posvar*	Trustee
Marjorie P. Smuts*	Trustee

\* By Power of Attorney

Exhibit 11 to Form N-14

MONEY MARKET OBLIGATIONS TRUST  
Federated Investors Tower  
Pittsburgh, Pennsylvania 15222-3779

Phone: 412-288-2614  
Fax: 412-288-8141

July 28, 1995

The Trustees of  
Money Market Obligations Trust  
Federated Investors Tower  
Pittsburgh, PA 15222-3779

Gentlemen:

Money Market Obligations Trust (the "Trust") proposes to issue Trust Shares of beneficial interest representing interests in a separate portfolio of securities known as Prime Obligations Fund (such shares of beneficial interest being herein collectively referred to as the "Shares") in connection with the acquisition of the assets of Prime Value Fund, a separate portfolio of Pacific Horizon Funds, Inc., pursuant to the Agreement and Plan of Reorganization dated as of June 26, 1995 (the "Agreement"), filed as an exhibit to the registration statement of the Trust filed on Form N-14 (Securities Act of 1933 No. to be assigned) under the Securities Act of 1933 as amended (the "N-14 Registration").

As counsel, I have participated in the organization of the Trust, its registration under the Investment Company Act of 1940, as amended, the registration of its securities on Form N-1A under the Securities Act of 1933, and its N-14 Registration. I have examined and am familiar with the written Declaration of Trust dated October 3, 1989, (the "Declaration of Trust"), the Bylaws of the Trust, the Agreement and such other documents and records deemed relevant. I have also reviewed questions of law and consulted with counsel thereon as deemed necessary or appropriate by me for the purposes of this opinion.

Based upon the foregoing, it is my opinion that:

1. The Trust is duly organized and validly existing pursuant to the Declaration of Trust.
2. The Shares which are currently being registered by the N-14 Registration may be legally and validly issued in accordance with the provisions

of the Agreement and the Declaration of Trust upon receipt of consideration sufficient to comply with the provisions of Article III, Section 3, of the Declaration of Trust and subject to compliance with the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and applicable state laws regulating the sale of securities. Such Shares, when so issued, will be fully paid and non-assessable.

The Trustees of  
Money Market Obligations Trust  
July 28, 1995  
Page 2

I consent to your filing this opinion as an exhibit to the N-14 Registration referred to above and to any application or registration statement filed under the securities laws of any of the states of the United States. I further consent to the reference to myself under the caption "Legal Counsel" in the prospectus filed as a part of such Registration Statement, applications, and registration statements.

Very truly yours,

By: /s/Jeannette Fisher-Garber  
Jeannette Fisher-Garber  
Assistant Secretary

JFG/dlm



Exhibit 12 to Form N-14

July 28, 1995

Pacific Horizon Funds, Inc.  
125 W. 55th Street, 11th Fl.  
New York, NY 10019

Re: Agreement and Plan of Reorganization  
By and Between Pacific Horizon Funds, Inc.  
and Money Market Obligations Trust with  
Respect to the Prime Value Fund

Dear Sirs and Mesdames:

We have been asked to give our opinion on the Federal income tax consequences to shareholders of the transactions contemplated in the above Agreement and Plan of Reorganization. In our opinion, the material Federal income tax consequences to shareholders of such transactions are accurately described in the subsection entitled "INFORMATION RELATING TO THE PROPOSED REORGANIZATION -- Federal Income Tax Consequences" in the Combined Proxy Statement and Prospectus contained in the Registration Statement being filed this day with the Securities and Exchange Commission.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. This does not constitute a consent under section 7 of the Securities Act of 1933, and in so consenting we have not certified any part of the Registration Statement and do not otherwise come within the categories of persons whose consent is required under section 7 or under the rules and regulations of the Securities and Exchange Commission issued thereunder.

Very truly yours,

/s/ Drinker Biddle & Reath

DRINKER BIDDLE & REATH

Exhibit 14(i) to Form N-14

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use in Form N-14 Registration Statement of Prime Obligations Fund (a portfolio of Money Market Obligations Trust) of our report dated September 15, 1994, on the financial statements as of July 31, 1994, included in or made a part of this registration statement.

/s/Arthur Andersen LLP  
ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania  
July 25, 1995

Exhibit 14(ii) to Form N-14

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus and related Statement of Additional Information of the Pacific Horizon Funds, Inc. dated July 1, 1995, which Prospectus and Statement of Additional Information are incorporated by reference in the Combined Proxy Statement and Prospectus and related Statement of Additional Information constituting parts of this registration statement on Form N-14, (the "Registration Statement") of our report dated April 21, 1995, relating to the financial statements and financial highlights appearing in the February 28, 1995 Annual Report to Shareholders of Pacific Horizon Prime Value Fund, one of the portfolios constituting the Pacific Horizon Funds, Inc., which report is also incorporated by reference and included in the Registration Statement. We also consent to the references to us under the headings "Financial Highlights" and "Financial Statements and Experts" in the Registration Statement.

/s/ Price Waterhouse LLP  
Price Waterhouse LLP  
1177 Avenue of the Americas  
New York, New York 10036  
July 24, 1995

Exhibit 14(iii) to Form N-14

CONSENT OF COUNSEL

We hereby consent to the use of our name and to the references to our Firm included in the Registration Statement on Form N-14 under the Securities Act of 1933, as amended, and the Investment Company Act of 1940, respectively,

/s/ Drinker Biddle & Reath  
DRINKER BIDDLE & REATH

Philadelphia, Pennsylvania  
July 28, 1995

Exhibit 17.1 to Form N-14

Rule 24f-2 Notice

MONEY MARKET OBLIGATIONS TRUST

(Fund Name)

Federated Investors Tower  
Pittsburgh, Pennsylvania 15222-3779

1933 Act No. 33-31602

- (i) fiscal period for which notice is filed July 31, 1994
- (ii) The number or amount of securities of the same class or series, if any, which had been registered under the Securities Act of 1933, other than pursuant to Rule 24f-2 but which remained unsold at August 1, 1993, the beginning of the Registrant's fiscal period -0-
- (iii) The number or amount of securities, if any, registered during the fiscal period of this notice other than pursuant to Rule 24f-2 -0- -0-
- (iv) The number or amount of securities sold during the fiscal period of this notice 24,781,509,667
- (v) The number or amount of securities sold during the fiscal period of this notice in reliance upon registration pursuant to Rule 24f-2 (see attached Computation of Fee) 24,781,509,667

WITNESS the due execution hereof this 15th day of September, 1994.

By: /s/ Jeannette Fisher-Garber

COMPUTATION OF FEE

1. Actual aggregate sale price of Registrant's securities sold pursuant to Rule 24f-2 during the fiscal period for which the 24f-2 notice is filed (see Section v)		\$24,781,509,667
2. Reduced by the difference between:		
(a) actual aggregate redemption price of such securities redeemed by the issuer during the fiscal period for which the 24f-2 notice is filed	\$24,155,454,045	
(b) actual aggregate redemption price of such redeemed securities previously applied by the issuer pursuant to Section 24e(2) (a) for the fiscal period for which the 24f-2 notice is filed	-0-	24,155,454,045
Total amount upon which the fee calculation specified in Section 6(b) of the Securities Act of 1933 is based		\$ 626,055,622
FEE SUBMITTED (1/29 of 1% of Total amount)		\$215,883

PACIFIC HORIZON FUNDS, INC.  
PRIME VALUE FUND - PACIFIC HORIZON SHARES  
SPECIAL MEETING OF SHAREHOLDERS \_\_\_\_\_, 1995

KNOW ALL PERSONS BY THESE PRESENTS that the undersigned shareholders of PRIME VALUE FUND, an investment portfolio of PACIFIC HORIZON FUNDS, INC., hereby appoint \_\_\_\_\_, or any of them true and lawful attorneys, with power of substitution of each, to vote all shares of PRIME VALUE FUND, which the undersigned is entitled to vote, at the Special Meeting of Shareholders to be held on \_\_\_\_\_, 1995, at 125 West 55th Street, New York, New York 10019, at 10:30 a.m. and at any adjournment thereof.

Discretionary authority is hereby conferred as to all other matters as may properly come before the Special Meeting.

PROPOSAL

1. TO APPROVE OR DISAPPROVE AN AGREEMENT AND PLAN OF REORGANIZATION.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF PACIFIC HORIZON FUNDS, INC. The attorneys named will vote the shares represented by this proxy in accordance with the choice made on this ballot. IF NO CHOICE IS INDICATED AS TO ANY MATTER, THIS PROXY WILL BE VOTED AFFIRMATIVELY ON THE MATTER PRESENTED.

PLEASE RETURN BOTTOM PORTION WITH YOUR VOTE IN THE ENCLOSED ENVELOPE AND RETAIN THE TOP PORTION. Place the mail-in stub so that the return address, located on the reverse side of the ballot, appears through the window of the envelope.

PRIME VALUE FUND-  
PACIFIC HORIZON SHARES  
RECORD DATE SHARES

PROXY VOTING MAIL-IN STUB

PROPOSAL 1: TO APPROVE OR  
DISAPPROVE AN AGREEMENT AND PLAN OF  
REORGANIZATION

- FOR
- AGAINST
- ABSTAIN

Please sign EXACTLY as your name(s) appear above. When signing as attorney, executor, administrator, guardian, trustee, custodian, etc., please give your full title as such. If a corporation or partnership, please sign the full name

by an authorized officer or partner. If stock is owned jointly, all owners should sign.

Dated: \_\_\_\_\_, 19\_\_\_\_\_

\_\_\_\_\_  
Signature(s) of Shareholder(s)

PACIFIC HORIZON FUNDS, INC.  
PRIME VALUE FUND - HORIZON SHARES  
SPECIAL MEETING OF SHAREHOLDERS \_\_\_\_\_, 1995

KNOW ALL PERSONS BY THESE PRESENTS that the undersigned shareholders of PRIME VALUE FUND, an investment portfolio of PACIFIC HORIZON FUNDS, INC., hereby appoint \_\_\_\_\_, or any of them true and lawful attorneys, with power of substitution of each, to vote all shares of PRIME VALUE FUND, which the undersigned is entitled to vote, at the Special Meeting of Shareholders to be held on \_\_\_\_\_, 1995, at 125 West 55th Street, New York, New York 10019, at 10:30 a.m. and at any adjournment thereof.

Discretionary authority is hereby conferred as to all other matters as may properly come before the Special Meeting.

PROPOSAL

1. TO APPROVE OR DISAPPROVE AN AGREEMENT AND PLAN OF REORGANIZATION.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF PACIFIC HORIZON FUNDS, INC. The attorneys named will vote the shares represented by this proxy in accordance with the choice made on this ballot. IF NO CHOICE IS INDICATED AS TO ANY MATTER, THIS PROXY WILL BE VOTED AFFIRMATIVELY ON THE MATTER PRESENTED.

PLEASE RETURN BOTTOM PORTION WITH YOUR VOTE IN THE ENCLOSED ENVELOPE AND RETAIN THE TOP PORTION. Place the mail-in stub so that the return address, located on the reverse side of the ballot, appears through the window of the envelope.

PRIME VALUE FUND-  
HORIZON SHARES  
RECORD DATE SHARES

PROXY VOTING MAIL-IN STUB

PROPOSAL 1: TO APPROVE OR  
DISAPPROVE AN AGREEMENT AND PLAN OF  
REORGANIZATION

- FOR
- AGAINST



o ABSTAIN

Please sign EXACTLY as your name(s) appear above. When signing as attorney, executor, administrator, guardian, trustee, custodian, etc., please give your full title as such. If a corporation or partnership, please sign the full name by an authorized officer or partner. If stock is owned jointly, all owners should sign.

Dated: \_\_\_\_\_, 19\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Signature(s) of Shareholder(s)

Exhibit 17.3 to Form N-14

PROSPECTUS

July 1, 1995

Pacific Horizon Shares of the  
Pacific Horizon Prime Value Fund

(An Investment Portfolio Offered by Pacific Horizon Funds, Inc.)

[--- Unable To Translate Graphic ---]

This Prospectus applies to Pacific Horizon Shares of the Pacific Horizon Prime Value Fund (the "Fund"). The Fund is designed to provide investors with daily liquidity.

The Fund's investment objective is to seek high current income and stability of principal. It seeks to achieve this objective by investing substantially all of its assets in a diversified portfolio of U.S. dollar-denominated "money market" instruments such as bank certificates of deposit and bankers' acceptances, commercial paper and repurchase agreements, in addition to obligations issued or guaranteed by U.S. and foreign governmental entities.

Portfolio securities held by the Fund have remaining maturities of thirteen months or less from the date of purchase by the Fund. Portfolio securities which are subject to repurchase agreements or have certain put or demand features exercisable by the Fund within thirteen months (as well as certain U.S. Government obligations with floating or variable interest rates) may have longer maturities.

Shares of the Fund may be purchased or redeemed at any time without charge or penalty imposed by the Fund. Bank of America National Trust and Savings Association ("Bank of America") acts as investment adviser to the Fund. Concord Financial Group, Inc. sponsors the Fund and acts as its distributor and Concord Holding Corporation acts as its administrator, neither of which is affiliated with Bank of America.

This Prospectus briefly sets forth certain information about the Fund that investors should know before investing. It should be read and retained for future reference. Additional information about the Fund, contained in a Statement of Additional Information dated July 1, 1995, has been filed with the Securities and Exchange Commission and is available to investors upon request and without charge by calling the Fund's distributor at (800) 332-3863. The Statement of Additional Information, as it may from time to time be further

revised, is incorporated in its entirety by reference into this Prospectus.

[--- Unable To Translate Graphic ---]

Shares of the Fund are not bank deposits or obligations of, or guaranteed or endorsed by, Bank of America or any of its affiliates and are not federally insured by, guaranteed by, obligations of or otherwise supported by the U.S. Government, the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency. The Fund seeks to maintain its net asset value per share at \$1.00 for purposes of purchases and redemptions, although there can be no assurance that it will be able to do so on a continuous basis. Investment in the Fund involves investment risk, including the possible loss of principal amount invested.

[--- Unable To Translate Graphic ---]

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[--- Unable To Translate Graphic ---]

No person has been authorized to give any information or to make any representations, other than those contained in this Prospectus and in the Statement of Additional Information, in connection with the offering of the Fund's shares and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or its distributor. This prospectus does not constitute an offer by the fund or by the distributor to sell, or a solicitation of any offer to buy, any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful for the fund or the distributor to make such offer in such jurisdiction.

## Contents

Expense Information	2
Financial Highlights	3
Investment Objective and Policies	4
Management of the Fund	9
Purchases of Shares	11
Redemption of Shares	13
Shareholder Services	15

Dividends, Distributions and Taxes	16
Description of Shares	17
Performance Calculations	19

Distributor:	Investment Adviser:
Concord Financial Group, Inc. Association	Bank of America National Trust and Savings
125 West 55th Street	555 California Street
New York, NY 10019	San Francisco, CA 94104

#### Expense Information

The following table sets forth certain information regarding shareholder transaction expenses imposed by the Fund and the annual operating expenses the Fund expects to incur during its current fiscal year with respect to its Pacific Horizon Shares. This information has been restated to assume that current fees had been in effect during the previous fiscal year. Actual expenses may vary.

Hypothetical examples based on the table are also shown.

#### Prime Value Fund

#### Shareholder Transaction Expenses

Sales Load Imposed on Purchases	None
Sales Load Imposed on Reinvested Dividends	None
Deferred Sales Load	None
Redemption Fees	None

#### Annual Fund Operating Expenses (as a percentage of average net assets)

Management Fees (After Fee Waivers)	.14%
All Other Expenses (After Fee Waivers)	.08%
Special Management Services Fee (After Fee Waivers)	.00%
Other Expenses	.08%
Total Fund Operating Expenses (After Fee Waivers)	0.22%

Example	1 Year	3 Years	5 Years	10 Years
---------	--------	---------	---------	----------

You would pay the following expenses



Income from Investment Operations:		
Net investment income	0.0456	0.0302
Less Dividends:		
Dividends from net investment income	(0.0456)	(0.0302)
Net change in net asset value per share	0.0000	0.0000
Net asset value per share, end of period	\$1.00	\$1.00
Total return	4.66%	3.06%
Ratios/Supplemental Data:		
Net assets, end of period (000)	\$77,733	\$151,447
Ratio of expenses to average net assets**		0.21%
0.18%_		
Ratio of net investment income to average net assets**	4.32%	3.15%_

\* For the period March 16, 1993 (commencement of operations) through February 28, 1994.

\*\* Net of fee waivers which had the effect of reducing the ratio of expenses to average net assets and increasing the ratio of net investment income to average net assets by 0.44% for the year ended February 28, 1995 and 0.58% (annualized) for the period ended February 28, 1994.

\_ Annualized.

Not annualized.

## Investment Objective and Policies

This section describes the investment objective and policies of the Fund. Assets of the Fund will be invested in dollar-denominated debt securities with remaining maturities of thirteen months or less as defined by the Securities and Exchange Commission, and the dollar-weighted average portfolio maturity of the Fund will not exceed 90 days. All securities acquired by the Fund will be determined by the adviser, under guidelines established by the Board of Directors of Pacific Horizon Funds, Inc. (the "Company"), to present minimal credit risks and will be "First Tier Securities" as defined by the Securities and Exchange Commission. First Tier Securities consist of instruments that are either rated at the time of purchase in the top rating category by one (if rated by only one) or more unaffiliated nationally recognized statistical rating organizations ("NRSROs") including Standard and Poor's Ratings Group, Division of McGraw Hill ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's"), Duff & Phelps Credit Co. ("Duff & Phelps") or Fitch Investors Service, Inc. ("Fitch") or issued by issuers with such ratings. The Appendix to the Statement of Additional Information includes a description of the applicable NRSRO ratings. Unrated instruments (including instruments with long-term but no short-term ratings) purchased by the Fund will be of comparable quality as determined by the Fund's adviser pursuant to guidelines approved by the Board of Directors.

The Fund's investment objective is to seek high current income and stability of principal. The Fund invests substantially all of its assets in a diversified portfolio of U.S. dollar-denominated money market instruments. Portfolio securities held by the Fund have remaining maturities of thirteen months or less from the date of purchase by the Fund. (Portfolio securities which are subject to repurchase agreements or have certain put or demand features exercisable by the Fund within thirteen months, as well as certain U.S. Government obligations with floating or variable interest rates, may have longer maturities.) The money market instruments in which the Fund invests will generally have neither as much risk nor as high a return as longer-term or lower-rated instruments.

In pursuing its investment objective, the Fund invests in a broad range of government, bank and commercial obligations that may be available in the money markets. In accordance with regulations of the Securities and Exchange Commission, the Fund intends to limit investments in the securities of any single issuer (other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities) to not more than 5% of the Fund's total assets at the time of purchase, provided that the Fund may invest up to 25% of its total assets in the securities of any one issuer for a period of up to three business days. The following descriptions illustrate the types of instruments in which the Fund invests.

**Bank Obligations.** The Fund may purchase U.S. dollar-denominated bank obligations such as time deposits, certificates of deposit and bankers' acceptances issued by domestic and foreign banks. Such banks must have total assets at the time of purchase in excess of \$1 billion. The Fund may also make interest-bearing savings deposits in commercial banks in amounts not in excess of 5% of the Fund's total assets.

**Commercial Obligations.** The Fund may purchase commercial paper, short-term notes, and bonds issued by domestic and foreign corporations that meet the Fund's maturity limitations. These instruments may include Canadian Commercial Paper ("CCP"), which is U.S. dollar-denominated commercial paper issued by a Canadian corporation or a Canadian counterpart of a U.S. corporation, and Europaper, which is U.S. dollar-denominated commercial paper of a foreign issuer.

The Fund may also invest in commercial paper issued in reliance on the so-called "private placement" exemption from registration afforded by Section 4(2) of the Securities Act of 1933 ("Section 4(2) paper"). Section 4(2) paper is restricted as to disposition under the federal securities laws and generally is sold to institutional investors such as the Fund that agree that they are purchasing the paper for investment and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) paper normally is resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers that make a market in Section 4(2) paper. Section 4(2) paper will not be subject to the Fund's 10% limitation on illiquid securities set forth below where the Board of Directors or the Fund's adviser (pursuant to guidelines adopted by the Board) determines that a liquid trading market exists.

U.S. Government Obligations. The Fund may purchase obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities. Examples of the types of U.S. Treasury obligations that may be held by the Fund include U.S. Treasury bills and notes, including "stripped" securities (both interest-only and principal-only) issued by the U.S. Treasury and recorded in the Federal Reserve book-entry record-keeping system. "Stripped" U.S. Treasury securities include zero coupon obligations that are normally issued at a discount to their "face value," and may exhibit greater price volatility than ordinary debt securities. Obligations of certain agencies and instrumentalities of the U.S. Government, such as the Small Business Administration, are backed by the full faith and credit of the United States. Others are backed by the right of the issuer to borrow from the U.S. Treasury (such as obligations of the Federal Home Loan Bank), by the discretionary authority of the U.S. Government to purchase the agency's obligations (such as obligations of the Federal National Mortgage Association), or only by the credit of the agency or instrumentality issuing the obligation (such as the Student Loan Marketing Association). Securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities have historically involved little risk of loss of principal if held to maturity. However, no assurance can be given that the U.S. Government would provide financial support to any agency or instrumentality if it is not obligated to do so by law.

Foreign Government Obligations. The Fund may invest in U.S. dollar-denominated obligations issued or guaranteed by foreign governments or any of their political subdivisions, agencies or instrumentalities. Such obligations include debt obligations of supranational entities. Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples of these include the International Bank for Reconstruction and Development (the "World Bank"), the Asian Development Bank and the InterAmerican Development Bank.

Asset-Backed Securities. The Fund may purchase asset-backed securities, which are securities backed by mortgages, installment sales contracts, credit card receivables or other assets. The average life of asset-backed securities varies with the maturities of the underlying instruments, and the average life of a mortgage-backed instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of mortgage prepayments. For this and other reasons, an asset-backed security's stated maturity may be shortened, and the security's total return may be difficult to predict precisely. Such difficulties are not, however, expected to have a significant effect on the Fund since the remaining maturity of any asset-backed security acquired will be thirteen months or less. Asset-backed securities acquired by the Fund may include collateralized mortgage obligations ("CMOs") issued by private companies.

Participations. The Fund may purchase from domestic financial institutions participation interests in high quality debt securities. A participation interest gives the Fund an undivided interest in the security in the proportion that the Fund's participation interest bears to the total principal amount of the security. Participation interests may have fixed, floating or variable rates



of interest, and will have remaining maturities of thirteen months or less (as defined by the Securities and Exchange Commission). If a participation interest is unrated, the adviser will have determined that the interest is of comparable quality to those instruments in which the Fund may invest pursuant to guidelines approved by the Company's Board of Directors. The Fund intends only to purchase participations from an entity or syndicate, and does not intend to serve as a co-lender in any participation. For certain participation interests, the Fund will have the right to demand payment, on not more than 30 days' notice, for all or any part of the Fund's participation interest in the security, plus accrued interest. As to these instruments, the Fund intends to exercise its right to demand payment only upon a default under the terms of the security, as needed to provide liquidity, or to maintain or improve the quality of its investment portfolio. It is possible that a participation interest might be deemed to be an extension of credit by the Fund to the issuing financial institution that is not a direct interest in the credit of the obligor of the underlying security and is not directly entitled to the protection of any collateral security provided by such obligor. In such event, the ability of the Fund to obtain repayment might depend on the issuing financial institution.

**Repurchase Agreements.** The Fund may agree to purchase securities from financial institutions, such as banks and broker-dealers as are deemed creditworthy by the adviser under guidelines approved by the Board of Directors, subject to the seller's agreement to repurchase them at an agreed upon time and price ("repurchase agreements"). Although the securities subject to a repurchase agreement may bear maturities exceeding thirteen months, the Fund intends only to enter into repurchase agreements having maturities not exceeding 60 days. Securities subject to repurchase agreements are held either by the Fund's custodian or subcustodian, or in the Federal Reserve/Treasury Book-Entry System. The seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount that exceeds the repurchase price, and such value (including accrued interest) will be continuously monitored by the adviser on an ongoing basis. Default by the seller would, however, expose the Fund to possible loss because of adverse market action or delay in connection with the disposition of the underlying obligations. Repurchase agreements are considered to be loans under the Investment Company Act of 1940.

**Reverse Repurchase Agreements.** The Fund may borrow monies for temporary purposes by entering into reverse repurchase agreements in accordance with the investment restrictions described below. Pursuant to such agreements, the Fund would sell portfolio securities to financial institutions and agree to repurchase them at an agreed upon date and price. At the time the Fund enters into a reverse repurchase agreement, it will place in a segregated custodial account liquid assets or high grade debt securities having a value equal to or greater than the repurchase price and the adviser will continuously monitor the account to insure that the value is maintained. The Fund would only enter into reverse repurchase agreements to avoid otherwise selling securities during unfavorable market conditions to meet redemptions. Reverse repurchase agreements involve the risk that the market value of the portfolio securities sold by the Fund may decline below the price of the securities the Fund is obligated to

repurchase. Interest paid by the Fund in connection with a reverse repurchase agreement will reduce the Fund's net investment income. Reverse repurchase agreements are considered to be borrowings under the Investment Company Act of 1940.

Variable and Floating Rate Instruments. Securities purchased by the Fund may include variable and floating rate instruments, which may have a stated maturity in excess of the Fund's maturity limitations but which will, except for certain U.S. Government obligations, permit the Fund to demand payment of the principal of the instrument at least once every thirteen months upon not more than thirty days' notice. Such instruments may include variable amount master demand notes that permit the indebtedness thereunder to vary in addition to providing for periodic adjustments in the interest rate. There may be no active secondary market with respect to a particular variable or floating rate instrument. Nevertheless, the periodic readjustments of their interest rates tend to assure that their value to the Fund will approximate their par value. Illiquid variable and floating rate instruments (instruments which are not payable upon seven days notice and do not have an active trading market) that are acquired by the Fund are subject to the percentage limitations described below under "Illiquid Investments." The adviser will continuously monitor the creditworthiness of issuers of variable and floating rate instruments in which the Fund invests, and their ability to repay principal and interest.

Variable and floating rate instruments purchased by the Fund may include participation certificates issued by trusts or financial institutions in variable and floating rate obligations owned by such issuers or affiliated organizations. A participation certificate gives the Fund a specified undivided interest (up to 100%) in the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the participation interest from the institution upon a specified number of days' notice. If the credit of the obligor is of minimal credit risk, no credit support from a bank or other financial institution will be necessary. In other circumstances, the participation certificate will be backed by an irrevocable letter of credit or guarantee of a bank, or will be insured by an insurer, that the Fund's adviser has determined meets the quality standards for the Fund.

The Fund may also invest in obligations which provide for a variable or floating interest rate which is determined through a periodic "auction process." From time to time, holders of the obligations have the right to tender any such obligations to a remarketing agent which then remarkets the obligations which have been tendered and thereby determines a new interest rate for the following period.

When-Issued Purchases, Forward Commitments and Delayed Settlements. The Fund may purchase securities on a "when-issued basis" and may purchase or sell securities on a "forward commitment" basis. The Fund may also purchase or sell securities on a "delayed settlement" basis. When-issued and forward commitment transactions, which involve a commitment by the Fund to purchase or sell particular securities with payment and delivery taking place at a future date (perhaps one or two months later), permit the Fund to lock in a price or yield

on a security it owns or intends to purchase, regardless of future changes in interest rates. Delayed settlement describes a securities transaction in the secondary market for which settlement will occur sometime in the future. When-issued, forward commitment and delayed settlement transactions involve the risk, however, that the yield or price obtained in a transaction may be less favorable than the yield or price available in the market when the securities delivery takes place. The Fund's forward commitments, when-issued purchases and delayed settlements are not expected to exceed 25% of the value of the Fund's total assets absent unusual market conditions. The Fund's liquidity and the ability of the adviser to manage the Fund's portfolio may be adversely affected in the event the Fund's forward commitments, commitments to purchase when-issued securities and delayed settlements ever exceeded 25% of the value of the Fund's assets. The Fund does not intend to engage in these transactions for speculative purposes but only in furtherance of its investment objective.

**Securities Lending.** To increase income on portfolio securities, the Fund may lend its portfolio securities to broker-dealers and other institutional investors pursuant to agreements requiring that the loans be continuously secured by collateral equal at all times in value to at least the market value of the securities loaned plus accrued interest. Collateral for such loans may include cash or securities of the U.S. Government, securities of U.S. Government agencies or instrumentalities, or an irrevocable letter of credit issued by a bank which meets the investment standards of the Fund. Such loans will not be made if, as a result, the aggregate of all outstanding loans of the Fund exceeds 30% of the value of its total assets. There may be risks of delay in receiving additional collateral or in recovering the securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially. However, loans will be made only to borrowers deemed by the adviser to be of good standing and when, in the adviser's judgment, the income to be earned from the loan justifies the attendant risks.

**Foreign Investments.** Because the Fund may hold securities issued by foreign issuers, the Fund may be subject to investment risks that are different in some respects from those incurred by a fund which invests only in debt obligations of U.S. domestic issuers. Such risks include future political and economic developments, the possible imposition of withholding taxes on interest income payable on the securities by the particular country in which the issuer is located, the possible seizure or nationalization of foreign deposits, the possible establishment of exchange controls or the adoption of other foreign governmental restrictions which might adversely affect the payment of principal and interest on these securities. In addition, foreign banks and other issuers are not necessarily subject to the same regulatory requirements that apply to domestic issuers (such as reserve requirements, loan limitations, examinations, accounting, auditing and recordkeeping requirements, and public availability of information) and the Fund may experience difficulties in obtaining or enforcing a judgment against a foreign issuer.

**Illiquid Investments.** The Fund will not knowingly invest more than 10% of the value of its net assets in securities that are illiquid. Repurchase agreements, securities loans and time deposits that do not provide for payment to the Fund within seven days after notice and securities that are not

registered under the Securities Act of 1933 but that may be purchased by institutional buyers under Rule 144A, are subject to this 10% limit (unless such securities are commercial paper and variable amount master demand notes with maturities of nine months or less or unless the Board or the adviser, pursuant to guidelines adopted by the Board, determines that a liquid trading market exists).

**Investment Limitations.** The Fund's investment objective is a fundamental policy that may not be changed without a vote of the holders of a majority of the Fund's outstanding shares (as defined in the Investment Company Act of 1940). The Fund's policies may be changed by the Board of Directors without the affirmative vote of the holders of a majority of the Fund's outstanding shares, except that the investment limitations set forth below may not be changed without such a vote of shareholders. A description of certain other fundamental investment limitations is contained in the Statement of Additional Information.

The Fund may not:

1. Purchase any securities which would cause, at the time of purchase, less than 25% of the value of its total assets to be invested in obligations of issuers in the banking industry or in obligations, such as repurchase agreements, secured by such obligations (unless the Fund is in a temporary defensive position) or which would cause, at the time of purchase, 25% or more of the Fund's total assets to be invested in the securities of one or more issuers conducting their principal business activities in any other industry, provided that (a) there is no limitation with respect to obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or repurchase agreements secured by such obligations; (b) wholly-owned finance companies will be considered to be in the industries of their parents if their activities are primarily related to financing the activities of the parents; and (c) the industry classification of utilities will be determined according to their service. For example, gas, gas transmission, electric and gas, electric and telephone will each be considered a separate industry.
2. Borrow money or issue senior securities, except that the Fund may borrow from banks and enter into reverse repurchase agreements for temporary purposes in amounts up to one-third of the value of the total assets at the time of such borrowing; or mortgage, pledge or hypothecate any assets, except in connection with any such borrowing and then in amounts not in excess of one-third of the value of the Fund's total assets at the time of such borrowings. The Fund will not purchase securities while its borrowings (including reverse repurchase agreements) in excess of 5% of its total assets are outstanding. Securities held in escrow or separate accounts in connection with the Fund's investment practices described in this Prospectus or the Statement of Additional Information are not deemed to be pledged for purposes of this limitation.

**Investment Decisions.** Investment decisions for the Fund are made independently from those for other investment companies and accounts managed by the adviser and its affiliated entities. Such other investment companies and accounts may

also invest in the same securities as the Fund. When a purchase or sale of the same security is made at substantially the same time on behalf of the Fund and another investment company or account, available investments or opportunities for sales will be allocated in a manner which the adviser believes to be equitable. In some instances, this investment procedure may adversely affect the price paid or received by the Fund or the size of the position obtained or sold by the Fund. In addition, in allocating purchase and sale orders for portfolio securities (involving the payment of brokerage commissions or dealer concessions), the adviser may take into account the sale of shares of the Fund by broker-dealers and other financial institutions (including affiliates of the adviser and the Fund's Distributor), provided the adviser believes that the quality of the transaction and the amount of the commission are not less favorable than what they would be with any other unaffiliated qualified firm.

#### Management of the Fund

**Board of Directors.** The business of the Company is managed under the direction of its Board of Directors. Information about the Directors and officers of the Company is included in the Statement of Additional Information.

**Investment Adviser.** Bank of America National Trust and Savings Association ("Bank of America") serves as the Fund's investment adviser. Bank of America, which has principal offices located at 555 California Street, San Francisco, California 94104, is a national banking association formed in 1904 which provides commercial banking and trust business through an extensive system of branches across the western United States. Bank of America's principal banking affiliates operate branches in ten U.S. states as well as corporate banking and business credit offices in major U.S. cities and branches, corporate offices and representative offices in 37 countries. Bank of America and its affiliates have over \$50 billion under management, including over \$10 billion in mutual funds. Bank of America is a subsidiary of BankAmerica Corporation, a registered bank holding company.

As investment adviser, Bank of America manages the Fund's investments and is responsible for all purchases and sales of the Fund's portfolio securities. For its investment advisory services Bank of America is entitled to receive a fee accrued daily and payable monthly at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. This amount may be reduced pursuant to certain undertakings by Bank of America described below under "Fee Waivers." The Fund paid advisory fees to the Bank of America at an effective annual rate of .07% of the Fund's net assets for the fiscal year ended February 28, 1995, and Bank of America waived advisory fees at an effective annual rate of .03% of the Fund's net assets for the same period.

In addition, Bank of America is also entitled to fees under the Company's Special Management Services Agreement described below and may also receive fees charged directly to its customers' accounts in connection with investments in Fund shares.

**Administrator.** Concord Holding Corporation (the "Administrator") serves as the

Company's administrator and assists generally in supervising the Fund's operations. The Administrator is a wholly-owned subsidiary of The BISYS Group, Inc. Its offices are located at 125 West 55th Street, New York, New York 10019.

Under its basic administrative services agreement for the Fund, the Administrator has agreed to provide facilities, equipment and personnel to carry out administrative services for the Fund, including coordination of reports to shareholders and the Securities and Exchange Commission; calculation of the net asset value of Fund shares and dividends and capital gains distributions to shareholders; payment of the costs of maintaining the Fund's offices; preparation of tax returns; provision of internal legal and accounting compliance services; maintenance (or oversight of the maintenance by others approved by the Board of Directors) of the Fund's books and records; and the provision of various shareholder services for shareholders who have made a minimum initial investment of at least \$500,000, including the provision of a facility to receive purchase and redemption orders for the accounts of such shareholders.

For its administrative services the Administrator is entitled to receive an administration fee computed daily and payable monthly at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. The Fund paid administration fees to the Administrator at an effective annual rate of .07% of the Fund's net assets for the fiscal year ended February 28, 1995, and the Administrator waived administration fees at an effective annual rate of .03% of the Fund's net assets for the same period.

Pursuant to the authority granted in its agreement with the Company, the Administrator has entered into an agreement with The Bank of New York under which the bank performs certain of the services listed above e.g., calculating the net asset value of Fund shares and dividends to shareholders and maintaining the Fund's books and records. The Fund bears all fees and expenses charged by The Bank of New York for these services.

Special Management Services Agreement. The Company has entered into a Special Management Services Agreement with Bank of America and the Administrator with respect to the Fund's Pacific Horizon Shares. Under the Agreement, Bank of America and the Administrator have agreed to develop and monitor the investor programs that are offered from time to time in connection with Pacific Horizon Shares; provide dedicated walk-in and telephone facilities to handle shareholder inquiries and serve investor needs; develop and maintain specialized systems for the automatic investments of customers of Bank of America, the Administrator and selected broker/dealers; maintain the registration or qualification of the Fund's shares for sale under state securities laws; assume the expense of payments made to third parties for services provided in connection with the investments of their customers in Pacific Horizon Shares; and provide various services (such as the provision of a facility to receive purchase and redemption orders) for shareholders who have made a minimum initial investment of less than \$500,000.

For the services provided and expenses assumed pursuant to the Special Management Services Agreement, Bank of America and the Administrator waived, for the fiscal year ended February 28, 1995, an aggregate fee at the annual rate of .32% of the average net asset value of the Fund's Pacific Horizon Shares outstanding from time to time. As stated below under "Description of Shares," this fee is borne by the Fund's Pacific Horizon Shares and is not paid to the Administrator and Bank of America with respect to the Fund's other series of shares.

Distributor. Concord Financial Group, Inc. (the "Distributor") is the principal underwriter and distributor of Fund shares. The Distributor is a wholly-owned subsidiary of the Administrator organized to distribute shares of mutual funds to institutional and retail investors. Its offices are located at 125 West 55th Street, New York, New York 10019.

The Distributor makes a continuous offering of the Fund's shares and bears the costs and expenses of printing and distributing to selected dealers and prospective investors copies of any prospectuses, statements of additional information and annual and interim reports of the Fund (after such items have been prepared and set in type by the Fund) which are used in connection with the offering of shares, and the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Fund's shares for sale to the public.

Custodian and Transfer Agent. The Bank of New York, located at 90 Washington Street, New York, New York 10286, serves as the Fund's custodian. DST Systems, Inc. (the "Transfer Agent"), 811 Main, Kansas City, Missouri 64105-2005, serves as the Fund's transfer agent and dividend disbursing agent.

Fee Waivers. Except as noted in this Prospectus and the Statement of Additional Information, the Fund's service contractors bear all expenses in connection with the performance of their services and the Fund bears the expenses incurred in its operations. Fund expenses include taxes, interest, brokerage fees and commissions, if any, fees of directors who are not officers, directors, partners, employees or holders of 5% or more of the outstanding voting securities of Bank of America or the Administrator or any of their affiliates, Securities and Exchange Commission fees and state securities qualification fees, advisory fees, fees payable under the Basic Administrative Services Agreement and Special Management Services Agreement, charges of custodians, transfer and dividend disbursing agents fees, certain insurance premiums, outside auditing and legal expenses, costs of maintaining corporate existence, costs attributable to investor services, including without limitation, telephone and personnel expenses, costs of preparing and printing prospectuses and statements of additional information for regulatory purposes, costs of shareholders' reports and corporate meetings and any extraordinary expenses. From time to time during the course of the Fund's fiscal year, the Administrator and/or Bank of America may voluntarily not receive payment of fees and/or assume certain expenses of the Fund, while retaining the ability to be reimbursed by the Fund for such amounts prior to the end of the fiscal year and, subject to the expense limitations of certain states, to stop such fee waivers and expense

reimbursements at any time. This will have the effect of increasing yield to investors at the time such fees are not received or amounts are assumed and decreasing yield when such fees or amounts are reimbursed.

## Purchases of Shares

Pacific Horizon Shares may be purchased directly from the Distributor, by clients of Bank of America through their qualified trust and agency accounts or by clients of certain institutions such as banks or broker-dealers ("Service Organizations") without a charge imposed by the Fund, although Bank of America and Service Organizations may charge a fee for providing administrative services in connection with investments in shares of the Fund. The minimum initial investment is \$500, except for purchases through Bank of America's trust and agency accounts or through a Service Organization whose clients have made aggregate minimum purchases of \$1,000,000, in which event the minimum initial investment is \$100, or as otherwise described below under "Shareholder Services." The minimum subsequent investment is \$50, except for investments arising from automatic investment transactions on behalf of Bank of America's trust and agency accounts, as to which there is no minimum. Bank of America and Service Organizations may impose minimum customer account and other requirements in addition to those imposed by the Fund. The Fund reserves the right to reject any purchase order. Persons wishing to purchase shares through their accounts at Bank of America or a Service Organization should contact such entity directly for appropriate instructions. Other investors may purchase shares in the manner described below.

An investor desiring to purchase shares by mail should complete an Account Application and mail the Application and a check payable to "Pacific Horizon Prime Value Fund" to the Company c/o DST Systems, Inc., P.O. Box 419955, Kansas City, Missouri 64141-6955. All subsequent payments should be mailed to DST Systems, Inc., P.O. Box 419940, Kansas City, Missouri 64173-0298. An investor desiring to purchase shares by wire should request his bank to transmit immediately available funds by wire to The Bank of New York, ABA No. 021000018, Pacific Horizon Funds, Inc. Prime Value Fund, DDA No. 8900117796 for purchase of shares in the investor's name. It is important that the wire include the investor's name, address and tax identification number and indicate whether a new account is being established or a subsequent payment is being made to an established account. If a subsequent payment is being made, the investor's Fund account number should be included. An investor should contact his bank for information on remitting funds in this manner, including any charges imposed by the bank for wiring funds. Payments which are hand delivered must be delivered directly to the Transfer Agent at 811 Main, Kansas City, Missouri 64105-2005.

A fee will be imposed by the Transfer Agent if any check used for investment in an account does not clear. All payments should be in U.S. dollars. Purchase orders in proper form are effected on a day on which both the Fund's custodian and the New York Stock Exchange (the "Exchange") are open for business (a "Business Day") at the net asset value per share next determined after receipt by the Transfer Agent at its Kansas City office of both an order and federal funds. Purchases will not be effected until payments made in other than federal funds are converted to federal funds, which is ordinarily within two business



days of receipt. Purchase orders effected through automatic investment transactions on behalf of Bank of America's trust and agency accounts are received by Bank of America before 12:00 noon (Pacific Time) and are effected as of 4:00 p.m. (Eastern Time) on the same day. It is the responsibility of Bank of America or the Service Organization involved to transmit orders for the purchases of shares by its customers to the Transfer Agent and deliver required funds on a timely basis, in accordance with the procedures stated above. Share purchases and redemptions executed through Bank of America or a Service Organization are executed only on days on which the particular institution is open for business.

The net asset value per share of the Fund is determined on each Business Day as of 12:00 noon Eastern Time and the close of regular trading hours on the Exchange (or 4:00 p.m. Eastern Time if the Exchange is closed). In computing net asset value, the Fund uses the amortized cost method of valuation as described in the Statement of Additional Information under "Purchase and Redemption of Shares." The net asset value per share for purposes of pricing purchase and redemption orders for the Fund is determined independently of that for other portfolios of the Company. For voice recorded price and yield information call (800) 227-1545.

Federal regulations require that each investor provide a certified Taxpayer Identification Number upon opening or reopening an account. See the Fund's Account Application for further information about this requirement.

In connection with the sale of shares of the Fund, the Company will obtain a representation from Service Organizations (as well as from Bank of America and the Administrator) that they will be licensed as dealers as required by applicable law or will not engage in activities which would require them to be so licensed.

TeleTrade. Although the privilege may not be used to make an initial purchase, an investment in Pacific Horizon Shares of the Fund automatically entitles an investor to purchase Fund shares (minimum of \$500 and maximum of \$50,000 per transaction) without charge by telephone unless he indicates on the Account Application or in a subsequent written notice to the Transfer Agent that he does not wish to use the TeleTrade Privilege. Appropriate information concerning the investor's bank must be provided in the Account Application or in a subsequent signature guaranteed letter of instruction to the Transfer Agent before the TeleTrade Privilege may be used. The proceeds will be transferred between the check ing, NOW or bank money market account designated in one of these documents and the investor's Fund account. Only an account maintained at a domestic financial institution which is an Automated Clearing House member may be so designated.

TeleTrade purchases will be effected at the net asset value next determined after receipt of payment by the Fund's Transfer Agent. The Company may modify this Privilege at any time or charge a service fee upon notice to shareholders. No such fee currently is contemplated.

An investor who has selected the TeleTrade Privilege may request TeleTrade

purchases by telephoning the Transfer Agent at (800) 346-2087. The TeleTrade Privilege may not be available to certain clients of Bank of America or particular institutional investors.

## Redemption of Shares

Investors whose shares are purchased through accounts at Bank of America or a Service Organization may redeem all or part of their Pacific Horizon Shares in accordance with the instructions pertaining to such accounts. If such investors are also the shareholders of record of those accounts on the books of the Transfer Agent, they may redeem shares in accordance with the procedures described below under "Regular Redemption." Such investors wishing to use the other redemption methods must arrange with Bank of America or a Service Organization for delivery of the required application(s) to the Transfer Agent. Redemption orders are effected on a Business Day at the net asset value per share next determined after receipt of the order by the Transfer Agent. It is the responsibility of Bank of America or the Service Organization to transmit the redemption order and credit its customer's account with the redemption proceeds on a timely basis. Other investors may redeem all or part of their shares in accordance with one of the following procedures.

**Regular Redemption.** An investor may redeem shares in any amount by sending a written request to the Prime Value Fund, c/o DST Systems, Inc., P.O. Box 419955, Kansas City, Missouri 64141-6955. Redemption orders are effected upon receipt by the Transfer Agent at its Kansas City office. Redemption requests delivered to the Company other than by mail must be delivered to the offices of the Transfer Agent at 811 Main, Kansas City, Missouri 64105-2005. Shares for which certificates have been issued may not be redeemed unless the certificates have been submitted to the Transfer Agent and endorsed for transfer.

Redemption requests must be signed by each shareholder, including each joint owner on redemption requests for joint accounts. A redemption request for (i) an amount in excess of \$50,000 per day, (ii) any amount if the proceeds are to be sent elsewhere than to the address of record, and (iii) an amount of \$50,000 or less if the address of record has not been on file with the Transfer Agent for a period of 60 days, must be accompanied by a signature guarantee. The guarantor of a signature must be a bank that is a member of the FDIC, a trust company, a member firm of a national securities exchange or other eligible guarantor institution. The Transfer Agent will not accept guarantees from notaries public. Signatures on endorsed certificates submitted for redemption must also be guaranteed. Guarantees must be signed by an authorized signatory of the guarantor institution and "Signature Guaranteed" must appear with the signature.

**TeleTrade.** An investor may redeem shares in the same manner and subject to the same limitations as described under "Purchases of Shares TeleTrade" above. Redemption proceeds will be on deposit in the investor's account at a domestic financial institution which is an Automated Clearing House member bank ordinarily two business days after receipt of the redemption request. An investor may also request that redemption proceeds be sent by check. Checks will be sent only to the registered owner(s) and only to the address of record. An investor who has selected the TeleTrade Privilege may

request TeleTrade redemptions by telephoning the Transfer Agent at (800) 346-2087. Shares issued in certificate form are not eligible for this Privilege. Neither the Company nor any of its service contractors will be liable for any loss, or expense for acting upon any telephone instructions that are reasonably believed to be genuine. In attempting to confirm that telephone instructions are genuine, the Company will use such procedures as are considered reasonable.

Wire Redemption. An investment in Pacific Horizon Shares of the Fund automatically entitles an investor to redeem shares by wire unless he indicates on the Account Application or in a subsequent signature guaranteed written notice to the Transfer Agent that he does not wish to use this method of redemption. Appropriate information concerning the investor's bank must be provided on the Account Application or in a subsequent signature guaranteed letter of instruction to the Transfer Agent before shares may be redeemed by wire. Shareholders may instruct the Transfer Agent to redeem shares in the Fund on written, telegraphic or telephone instructions from any person representing himself to be the investor and believed by the Transfer Agent to be genuine. The responsibility of the Transfer Agent and certain other parties for telephonic instructions is discussed in the preceding paragraph. The proceeds of redemption will normally be wired in federal funds to the commercial bank specified by the investor on the Account Application. Redemption proceeds must be in an amount of at least \$1,000, and may be subject to limits as to frequency and overall amount. Wire redemptions may be terminated or modified by the Fund at any time. Shares issued in certificate form are not eligible for wire redemption. A shareholder should contact his bank for information on any charges imposed by the bank in connection with the receipt of redemption proceeds by wire. During periods of substantial economic or market change, telephone wire redemptions may be difficult to implement. If an investor is unable to contact the Transfer Agent by telephone, shares may also be redeemed by delivering the redemption request in person to the Transfer Agent or by mail as described above under "Regular Redemption." For additional information concerning wire redemptions, see the Statement of Additional Information and the Fund's Account Application.

Other Redemption Information. Redemption orders are effected at the net asset value per share next determined after receipt of the order by the Transfer Agent. The Fund ordinarily will make payment for all shares redeemed within three business days after receipt by the Transfer Agent of a request in proper form, except as provided by the rules of the Securities and Exchange Commission. However, if the shares to be redeemed have been purchased by check or TeleTrade, the Company will, upon clearance of the purchase check or TeleTrade payment, mail the redemption proceeds within seven business days. Where redemption is requested other than by mail, shares purchased by check or by TeleTrade will not be redeemed for a period of seven business days after their purchase. This procedure does not apply to situations where the Fund receives payment in cash or immediately available funds for the purchase of shares. During the period prior to the time the shares are redeemed, dividends on such shares will accrue and be payable, and an investor will be entitled to exercise all other rights of beneficial ownership. An investor having purchased shares by wire must have filed an Account Application before any redemption requests can be honored.

The Fund imposes no charge when shares are redeemed. However, if shares have

been purchased through Bank of America or a Service Organization, Bank of America or the Service Organization may charge a fee for providing administrative services in connection with investments in shares. The Fund reserves the right to redeem accounts (other than non-working spousal IRA accounts) involuntarily, upon sixty days' written notice, if the account's net asset value falls below the \$500 minimum balance.

#### Shareholder Services

The services and privileges described under this heading may not be available to certain clients of Bank of America and particular Service Organizations, and Bank of America and some Service Organizations may impose conditions on their clients which are different from those described in this Prospectus. You should consult Bank of America or your Service Organization in this regard.

Individual Retirement Accounts ("IRAs"). The Company makes available IRAs, including IRAs set up under a Simplified Employee Pension Plan ("SEP-IRAs") and IRA "Rollover Accounts." For details contact the Distributor at (800) 332-3863. The minimum initial investment for IRAs and SEP-IRAs with only one participant is normally \$500, with no minimum on subsequent purchases. Individuals who open an IRA may also open a non-working spousal IRA with a minimum investment of \$250. The minimum initial investment for SEP-IRAs with more than one participant is \$2,500, with no minimum on subsequent purchases. The investor should read the IRA Disclosure Statement and the Bank Custodial Agreement for further details as to eligibility, service fees and tax implications, and should consult a tax adviser.

Exchanges. The Exchange Privilege enables an investor to exchange Pacific Horizon Shares of the Fund for: 1) Pacific Horizon Shares in another portfolio of the Company, or 2) Class A shares of an investment portfolio of Time Horizon Funds, provided that such other shares may legally be sold in the state of the investor's residence. An investment in Pacific Horizon Shares of the Fund automatically entitles an investor to use this Privilege unless he indicates on the Account Application or in a subsequent written notice to the Transfer Agent that he does not wish to use this Privilege. The shares that are exchanged must have a current value of at least \$500; furthermore, in establishing a new account through use of this Privilege, the shares being exchanged must have a value at least equal to the minimum initial investment required by the particular portfolio into which the exchange is being made. Prospectuses for portfolios of the Company (as well as prospectuses for investment portfolios of Time Horizon Funds) into which an exchange is being made may be obtained from the investor's Service Organization or the Distributor. A shareholder may telephone instructions by calling the Transfer Agent at (800) 346-2087. See "Redemption of Shares TeleTrade" for a description of the Company's policy regarding responsibility for telephone instructions. When Fund shares are exchanged for shares of another portfolio in the Company (or for Class A shares of an investment portfolio of Time Horizon Funds) which are sold with a sales load, the applicable sales load, if any, will be deducted. An investor desiring to use the Exchange Privilege should read the Statement of Additional Information and consult his or her Service Organization or the Distributor for further information applicable to use of the Exchange Privilege. The Company

reserves the right to reject any exchange request and the Exchange Privilege may be modified or terminated at any time. At least 60 days' notice will be given to shareholders of any material modification or termination except where notice is not required under the regulations of the Securities and Exchange Commission.

**Automatic Investment Program.** The Automatic Investment Program permits an investor to purchase Pacific Horizon Shares of the Fund (minimum \$50 per transaction) at regular intervals selected by the investor. Provided the investor's financial institution allows automatic withdrawals, shares are purchased by transferring funds from an investor's checking, bank money market or NOW account designated by the investor. At the investor's option, the account designated will be debited in the specified amount, and shares will be purchased, once a month, on either the first or fifteenth day, or twice a month, on both days. Only an account maintained at a domestic financial institution which is an Automated Clearing House member may be so designated. The minimum initial investment requirement for investors establishing an Automatic Investment account is \$50. To establish an Automatic Investment Account, an investor must check the appropriate box and supply the necessary information on the Account Application or file a written request with the Transfer Agent. Such applications are available from the Distributor. An investor may cancel this Privilege or change the amount of purchase at any time by mailing written notification to the Transfer Agent at P.O. Box 419955, Kansas City, Missouri 64141-6955 and notification will be effective three business days following receipt. The Company may modify or terminate this Privilege at any time or charge a service fee, although no such fee currently is contemplated.

**Direct Deposit Program.** If an investor receives federal salary, social security, or certain veteran's, military or other payments from the federal government, he or she is eligible for the Direct Deposit Program. With this Program, an investor may purchase Pacific Horizon Shares (minimum of \$100 and maximum of \$50,000 per transaction) by having these payments automatically deposited into his or her Fund account. An investor may deposit as much of such payments as he or she elects. For instructions on how to enroll in the Direct Deposit Program, an investor should call the Transfer Agent at (800) 346-2087. Death or legal incapacity will terminate an investor's participation in the Program. An investor may elect at any time to terminate his or her participation by notifying the appropriate federal agency. Further, the Company may terminate an investor's participation upon 30 days' notice to the investor.

**Automatic Withdrawal Plan.** Investors having a \$5,000 minimum account may request withdrawal of a dollar amount in multiples of \$50 on a monthly, quarterly, semi-annual or annual basis. At the investor's option, monthly withdrawals will be made on either the first or fifteenth day of the month and quarterly, semi-annual or annual withdrawals will be made on either the first or fifteenth day of the month selected. To participate in the automatic withdrawal plan, an investor must check the appropriate box and supply the necessary information on the Account Application which may be obtained from the Distributor or subsequently file a signature guaranteed written request with the Transfer Agent.

Dividends, Distributions and Taxes

Dividends and Distributions. The shareholders of the Fund are entitled to dividends and distributions arising from the net income and realized gains, if any, earned on investments held by the Fund. The Fund's net income is declared daily as a dividend. Shares begin accruing dividends on the day the purchase order for the shares is executed and continue to accrue dividends through and including the day before the redemption order for the shares is executed. Dividends are paid within five business days after the end of each month. Although the Fund does not expect to realize net long-term capital gains, any such capital gains as may be realized will be distributed no more than twice a year after reduction for any available capital loss carry-forward. Dividends are paid in the form of additional full and fractional shares of the same series as the shares on which the dividends are declared at the net asset value of such shares on the payment date, unless the shareholder elects to receive dividends in cash. Reinvestment dividends receive the same tax treatment as dividends paid in cash. Such election or any revocation thereof must be made in writing to Pacific Horizon Funds, Inc. Prime Value Fund, c/o DST Systems, Inc., P.O. Box 419955, Kansas City, Missouri 64141-6955, and will become effective with respect to dividends paid after its receipt by the dividend disbursing agent.

Federal Taxes. Management of the Company believes that the Fund qualified for its last taxable year as a "regulated investment company" under the Internal Revenue Code of 1986, as amended (the "Code"), and it is intended that the Fund will qualify as a regulated investment company as long as such qualification is in the best interest of the Fund's shareholders. Such qualification generally will relieve the Fund of liability for federal income taxes to the extent its earnings are distributed in accordance with the Code.

In connection with such tax qualification, the Fund contemplates declaring as dividends at least 90% of its investment company taxable income for each taxable year. An investor of the Fund who receives a dividend derived from net investment company taxable income (including any excess of net short-term capital gain over net long-term capital loss) treats it as ordinary income in the computation of his gross income, whether such dividend is paid in the form of cash or additional Fund shares. Because all of the net investment income of the Fund is expected to be derived from earned interest, it is anticipated that all dividends paid by the Fund will be taxable as ordinary income to shareholders who are not exempt from federal income taxes and that no part of any distribution paid by the Fund will be eligible for the dividends received deduction for corporations.

Although the Fund anticipates that it will not have net long-term capital gains, any distribution of the Fund's excess of net long-term capital gains over its net short-term capital losses will be taxable to shareholders as long-term capital gains regardless of how long the shareholder has held Fund shares. Dividends declared in December of any year payable to shareholders of record on a specified date in December will be deemed for federal tax purposes to have been paid by the Fund and received by the shareholders on December 31, if such dividends are paid during January of the following year.

The foregoing is only a brief summary of some of the important federal income

tax considerations generally affecting the Fund and its shareholders, and is based on federal tax laws and regulations which are in effect as of the date of this Prospectus. Such laws and regulations may be changed by legislative or administrative actions. Potential investors in the Fund should consult their tax advisers with specific reference to their own tax situation. Shareholders will be advised at least annually as to the federal income tax consequences of distributions made each year.

State and Local Taxes. Investors are advised to consult their tax advisers concerning the application of state and local taxes, which may have different consequences from those of the federal income tax law described above.

#### Description of Shares

The Company was organized on October 27, 1982 as a Maryland corporation, and is registered under the Investment Company Act of 1940 as an open-end management investment company.

The Company's charter authorizes the Board of Directors to issue up to two hundred billion full and fractional shares of capital stock, and to classify and reclassify any authorized and unissued shares into one or more classes of shares. The Board of Directors may similarly classify or reclassify any class of shares into one or more series.

Pursuant to such authority, the Board of Directors has authorized the issuance of the following series of shares representing interests in the Fund, which is classified as a diversified company under the Investment Company Act of 1940: one and one-half billion Pacific Horizon Shares; one and one-half billion Horizon Service Shares; and eight billion Horizon Shares. Horizon Service Shares and Horizon Shares of the Fund are described in a separate Prospectus available from the Distributor at the telephone number on the cover of this Prospectus. The Board of Directors has also authorized the issuance of additional classes of shares representing interests in other investment portfolios of the Company, which are likewise described in separate prospectuses available from the Distributor. This Prospectus relates primarily to Pacific Horizon Shares of the Fund and describes only the investment objective and policies, operations, contracts and other matters relating to such shares.

Each Pacific Horizon Share, Horizon Service Share and Horizon Share in the Fund has a par value of \$.001 and is entitled to participate equally in the dividends and distributions declared by the Board of Directors with respect to the Fund and in the net distributable assets of the Fund on liquidation. Holders of the Fund's Pacific Horizon Shares bear the fees described in this Prospectus that are paid to Bank of America and the Administrator by the Fund under the Company's Special Management Services Agreement for Pacific Horizon Shares. Similarly, holders of Horizon Service Shares bear the fees described in the separate Prospectus for such shares that are paid to Shareholder Organizations by the Fund under the Company's Shareholder Services Plan. The fees paid under the Shareholder Services Plan are for services provided by institutional investors to their customers in connection with Horizon Service Shares, and Shareholder Organizations do not receive similar fees with respect to the

Fund's Horizon Shares or Pacific Horizon Shares. As a result, at any given time, the net yield on the Fund's Pacific Horizon Shares is expected to be approximately .07% lower than the yield on the Fund's Horizon Service Shares and .32% lower than the yield on the Fund's Horizon Shares. Standardized yield quotations will be computed separately for each series of Shares.

Shareholders are entitled to one vote for each full share held and fractional votes for fractional shares held, and will vote in the aggregate and not by class or series except as otherwise required by law or when class voting is permitted by the Board of Directors. It is contemplated that shareholders of the Fund will vote separately by class on matters relating to the Fund's investment advisory agreement and on any change in its fundamental investment limitations, and that only holders of Pacific Horizon Shares of the Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the Special Management Services Agreement. Shares have no preemptive rights and only such conversion and exchange rights as the Board may grant at its discretion. When issued for payment as described in this Prospectus, shares will be fully paid and non-assessable. Certificates for shares will not be issued unless expressly requested in writing and will not be issued for fractional shares.

The Company does not presently intend to hold annual meetings of shareholders for the election of directors and other business unless and until such time as less than a majority of the directors holding office have been elected by the shareholders of the Company, at which time the directors then in office will call a shareholders' meeting for the election of directors. Under certain circumstances, however, shareholders have the right to call a meeting of shareholders to consider the removal of one or more directors and such meetings will be called when requested by the holders of record of 10% or more of the Company's outstanding shares of common stock. To the extent required by law and the Company's undertaking with the Securities and Exchange Commission, the Company will assist in shareholder communications in such matters. Shares have cumulative voting rights to the extent that may be required by applicable law.

#### Performance Calculations

From time to time the "yield" or "effective yield" of the Fund may be quoted in advertisements or reports to shareholders. Both yield figures are based on historical earnings and are not intended to indicate future performance. The "yield" of the Fund refers to the income generated by an investment in the Fund over a seven-day period (which period will be stated in the advertisement or report). This income is then "annualized" that is, the amount of income generated by the investment during that week is assumed to be generated each week over a 52-week period and is shown as a percentage of the investment. The "effective yield" is calculated similarly but, when annualized, the income earned by an investment in the Fund is assumed to be reinvested. The "effective yield" will be slightly higher than the "yield" because of the compounding effect of this assumed reinvestment.

Additionally, the Fund's yield may be compared to those of other mutual funds with similar investment objectives and to other relevant indices or to rankings prepared by independent services or other financial or industry publications



that monitor the performance of mutual funds. For example, the Fund's yield may be compared to Donoghue's Money Fund Averages, which are averages compiled by Donoghue's Money Fund Report. Yield data as reported in national financial publications, including Money, Forbes, Barron's, The Wall Street Journal and The New York Times, or in publications of a local or regional nature, may also be used in comparing the Fund's yield. A complete listing of the indices, rankings and publications discussed above is contained in the Statement of Additional Information.

Since yields fluctuate, yield data cannot necessarily be used to compare an investment in the shares of the Fund with bank deposits, savings accounts and similar investment alternatives which often provide an agreed or guaranteed fixed yield for a stated period of time. Shareholders should remember that yield is generally a function of the kind and quality of the instruments held in a portfolio, portfolio maturity, operating expenses and market conditions. Any fees charged by Bank of America or other institutional investors directly to their customers in connection with investments in Fund shares (which fees may include, for example, account maintenance fees, compensating balance requirements or fees based upon account transactions, assets or income) are not included in the Fund's calculations of yield.

---

Shareholder inquiries should be addressed to the Distributor at the address or telephone number stated on the inside cover of this prospectus.

PACIFIC HORIZON MUTUAL FUNDS

COPPVMM95P

Prime Value Fund

PROSPECTUS

July 1, 1995

NOT FDIC INSURED

Exhibit 17.3 to Form N-14

PROSPECTUS

July 1, 1995

Horizon Shares and  
Horizon Service Shares of the  
Prime Value Fund  
(An Investment Portfolio Offered by Pacific Horizon Funds, Inc.)

[--- Unable To Translate Graphic ---]

This Prospectus applies to the Horizon Shares and Horizon Service Shares of the Pacific Horizon Prime Value Fund (the "Fund"), a separate, diversified investment portfolio offered by Pacific Horizon Funds, Inc. (the "Company"). Horizon Shares and Horizon Service Shares may not be purchased by individuals directly, but institutional investors may purchase shares for accounts maintained by individuals. The Fund is designed to provide institutions with daily liquidity.

The investment objective of the Fund is to seek high current income and stability of principal. It seeks to achieve this objective by investing substantially all of its assets in U.S. dollar-denominated "money market" instruments such as bank certificates of deposit and bankers' acceptances, commercial paper and repurchase agreements, in addition to obligations issued or guaranteed by U.S. and foreign governmental entities.

Portfolio securities held by the Fund have remaining maturities of thirteen months or less from the date of purchase by the Fund. Portfolio securities which are subject to repurchase agreements or have certain put or demand features exercisable by the Fund within thirteen months (as well as certain U.S. Government obligations with floating or variable interest rates) may have longer maturities.

Bank of America National Trust and Savings Association ("Bank of America") acts as investment adviser to the Fund. Concord Financial Group, Inc. sponsors the Fund and acts as its distributor and Concord Holding Corporation acts as its administrator, neither of which are affiliated with Bank of America.

This Prospectus briefly sets forth certain information about the Fund that investors should know before investing. It should be read and retained for future reference. Additional information about the Fund, contained in a Statement of Additional Information dated July 1, 1995, as it may from time to time be revised, has been filed with the Securities and Exchange Commission and is available to investors upon request and without charge by calling the Fund's distributor at (800) 426-3863. The Statement of Additional Information is

incorporated in its entirety by reference into this Prospectus.

[--- Unable To Translate Graphic ---]

Shares of the Fund are not bank deposits or obligations of, or guaranteed or endorsed by, Bank of America or any of its affiliates, and are not federally insured by, guaranteed by, obligations of or otherwise supported by the U.S. Government, the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency. The Fund seeks to maintain its net asset value per share at \$1.00 for purposes of purchases and redemptions, although there can be no assurance that it will be able to do so on a continuous basis. Investment in the Fund involves investment risks, including the possible loss of principal amount invested.

[--- Unable To Translate Graphic ---]

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[--- Unable To Translate Graphic ---]

#### Estimated Expense Information

The following table sets forth certain information regarding shareholder transaction expenses imposed by the Fund and (i) the annual operating expenses the Fund incurred during its last fiscal year with respect to its Horizon Shares and (ii) the estimated annual operating expenses the Fund expects to incur for the current fiscal year with respect to its Horizon Service Shares. Actual expenses may vary. Hypothetical examples based on the table are also shown.

	Horizon Shares	Horizon Service Shares*
Shareholder Transaction Expenses		
Sales Load Imposed on Purchases	None	None
Sales Load Imposed on Reinvested Dividends	None	None
Deferred Sales Load	None	None
Redemption Fees	None	None
Estimated Annual Fund Operating Expenses (as a percentage of average net assets)		
Management Fees (After Fee Waivers)	.14%	.14%

All Other Expenses	.08%	.33%
Shareholder Service Payments		.25%
Other Expenses	.08%	.08%
Total Fund Operating Expenses (After Fee Waivers)	.22%	.47%

\* The Company understands that institutions that enter into agreements ("Shareholder Service Agreements") with the Company ("Shareholder Organizations") under the Company's Shareholder Services Plan (the "Plan") may charge fees to their customers who are the beneficial owners of Horizon Service Shares in connection with their accounts. The Fund's Horizon Service Shares bear fees paid to Shareholder Organizations under the Plan at the annual rate of up to .25% of such Fund's average daily net asset value.

Example	1	3	5	10
	Year	Years	Years	Years

You would pay the following expenses on a \$1,000 investment, assuming (1) a 5% annual return and (2) redemption at the end of each time period:

Horizon Shares	\$2	\$7	\$12	\$28
Horizon Service Shares	\$5	\$15	\$26	\$59

The foregoing Estimated Expense Information and Example are intended to assist investors in Horizon Shares and Horizon Service Shares of the Fund in understanding the expenses of each class. Investors bear these expenses indirectly since they reduce the amount of income paid by the Fund to investors as dividends. Management Fees consist of an investment advisory fee and an administration fee, each payable at a maximum annual rate of .10% of the Fund's net assets. The investment adviser and administrator may voluntarily waive a portion of their respective fees and may voluntarily reimburse expenses from time to time. This voluntary waiver and reimbursement may be modified or terminated at any time.

Absent such waivers and/or reimbursements, it is estimated that the total operating expenses of the Horizon Shares and Horizon Service Shares of the Prime Value Fund would be .28% and .53%, respectively. See "Management of the Fund" for a more complete description of the various expenses referred to above.

THE EXAMPLE SET FORTH ABOVE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE INVESTMENT RETURNS AND OPERATING EXPENSES. ACTUAL INVESTMENT RETURNS AND OPERATING EXPENSES MAY BE MORE OR LESS THAN THOSE SHOWN.

### Financial Highlights

The Fund commenced operations on March 16, 1993 by offering a single series of shares known as Pacific Horizon Shares, and on May 16, 1994 began offering Horizon Shares. As of February 28, 1995, no Horizon Service Shares of the Fund had been issued. Pacific Horizon Shares and Horizon Service Shares bear certain fees in excess of those borne by Horizon Shares such that at any given time the yield on the Fund's Horizon Shares will be approximately .25% higher than the

yield on its Horizon Service Shares and approximately .32% higher than the yield on its Pacific Horizon Shares. See "Description of Shares" below.

The tables below set forth certain audited information concerning the investment results for:

1) Pacific Horizon Shares of the Fund for the year ended February 28, 1995 and the period March 16, 1993 (commencement of operations) through February 28, 1994, and 2) Horizon Shares of the Fund for the period May 16, 1994 (initial offering of Horizon Shares) to February 28, 1995. The information contained in the Financial Highlights has been audited by Price Waterhouse LLP, the Fund's independent accountants, whose unqualified report on the financial statements containing such information is incorporated by reference in the Statement of Additional Information. The Financial Highlights should be read in conjunction with the Fund's audited financial statements and notes thereto and the unqualified report of the independent accountants which are incorporated by reference in the Statement of Additional Information.

Selected Data for a Pacific Horizon Share Outstanding Throughout Each of the Periods Indicated:

	Year Ended February 28, 1995	Period Ended February 28, 1994*
PACIFIC HORIZON SHARES		
Net asset value per share, beginning of period	\$1.00	\$1.00
Income from Investment Operations:		
Net investment income	0.0456	0.0302
Less Dividends:		
Dividends from net investment income (0.0302)	(0.0456)	
Net change in net asset value per share	0.0000	0.0000
Net asset value per share, end of period	\$1.00	\$1.00
Total return	4.66%	3.06%
Ratios/Supplemental Data:		
Net assets, end of period (000)	\$77,733	\$151,447
Ratio of expenses to average net assets**	0.21%	0.18%_
Ratio of net investment income to average net assets**	4.32%	3.15%_

\* For the period March 16, 1993 (commencement of operations) through February 28, 1994.

\*\* Net of fee waivers which had the effect of reducing the ratio of expenses to average net assets and increasing the ratio of net investment income to average net assets by 0.44% for the year ended February 28, 1995 and 0.58% (annualized) for the period ended February 28, 1994.

Annualized.

Not annualized.

Selected Data for a Horizon Share Outstanding Throughout the Period Indicated.

	Period Ended February 28, 1995*
HORIZON SHARES	
Net asset value per share, beginning of period	\$1.00
Income from Investment Operations:	
Net investment income	0.0384
Less Dividends from net investment income	(0.0384)
Net change in net asset value per share	0.0000
Net asset value per share, end of period	\$1.00
Total return	3.91%
Ratios/Supplemental Data:	
Net assets, end of period (000)	\$109,605
Ratio of expenses to average net assets**	0.22% <u>  </u>
Ratio of net investment income to average net assets**	4.56% <u>  </u>

---

\* For the period May 16, 1994 (initial offering of Horizon Shares) through February 28, 1995.

\*\* Net of fee waivers which had the effect of reducing the ratio of expenses to average net assets and increasing the ratio of net investment income to average net assets by 0.04% (annualized).

Annualized.

Not annualized.

Yield Information. From time to time the "yield" or "effective yield" of a series of the Fund may be quoted in advertisements or reports to shareholders. Both yield figures are based on historical earnings and are not intended to indicate future performance. The "yield" of a series of the Fund refers to the income generated by an investment in the particular series of the Fund over a seven-day period (which period will be stated in the advertisement or report). This income is then "annualized" that is, the amount of income generated by the investment during that week is assumed to be generated each week over a 52-week

period and is shown as a percentage of the investment. The "effective yield" is calculated similarly but, when annualized, the income earned by an investment in the particular series of the Fund is assumed to be reinvested. The "effective yield" will be slightly higher than the "yield" because of the compounding effect of this assumed reinvestment.

Additionally, the yield of the Fund's series may be compared to those of other mutual funds with similar investment objectives and to other relevant indices or to rankings prepared by independent services or other financial or industry publications that monitor the performance of mutual funds. For example, the yield of the Fund's series may be compared to Donoghue's Money Fund Averages, which are averages compiled by Donoghue's Money Fund Report. Yield data as reported in national financial publications, including Money, Forbes, Barron's, The Wall Street Journal and The New York Times, or in publications of a local or regional nature, may also be used in comparing the yield of the Fund's series. A complete listing of the indices, rankings and publications discussed above is contained in the Statement of Additional Information.

Since yields fluctuate, yield data cannot necessarily be used to compare an investment in the shares of the Fund with bank deposits, savings accounts and similar investment alternatives which often provide an agreed or guaranteed fixed yield for a stated period of time. Shareholders should remember that yield is generally a function of the kind and quality of the instruments held in a portfolio, portfolio maturity, operating expenses and market conditions. Any fees charged by Bank of America or Shareholder Organizations (defined below) directly to their customer accounts in connection with investments in Fund shares (which fees may include, for example, account maintenance fees, compensating balance requirements or fees based upon account transactions, assets or income) will not be included in the calculations of the yield of the Fund's series.

#### Investment Objective and Policies

In General. The Fund's investment objective is to seek high current income and stability of principal. The Fund invests substantially all of its assets in a diversified portfolio of U.S. dollar-denominated money market instruments. Portfolio securities held by the Fund have remaining maturities of thirteen months or less (as defined by the Securities and Exchange Commission) from the date of purchase by the Fund. (Portfolio securities which are subject to repurchase agreements or have certain put or demand features exercisable by the Fund within thirteen months, as well as certain U.S. Government obligations with floating or variable interest rates, may have longer maturities.) The money market instruments in which the Fund invests will generally have neither as much risk nor as high a return as longer-term or lower-rated instruments.

In pursuing its investment objective, the Fund invests in a broad range of government, bank and commercial obligations that may be available in the money markets. In accordance with regulations of the Securities and Exchange Commission, the Fund intends to limit investments in the securities of any single issuer (other than securities issued or guaranteed by the U.S.



Government, its agencies or instrumentalities) to not more than 5% of the Fund's total assets at the time of purchase, provided that the Fund may invest up to 25% of its total assets in the securities of any one issuer for a period of up to three business days.

Assets of the Fund will be invested in dollar-denominated debt securities and the dollar-weighted average portfolio maturity of the Fund will not exceed 90 days. All securities acquired by the Fund will be determined by the adviser, under guidelines established by the Board of Directors of the Company, to present minimal credit risks and will be "First Tier Securities" as defined by the Securities and Exchange Commission. First Tier Securities consist of instruments that are either rated at the time of purchase in the top rating category by one (if rated by only one) or more unaffiliated nationally recognized statistical rating organizations ("NRSROs") including Standard and Poor's Ratings Group, Division of McGraw Hill ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's"), Duff & Phelps Credit Co. ("Duff & Phelps") or Fitch Investors Service, Inc. ("Fitch") or issued by issuers with such ratings. The Appendix to the Statement of Additional Information includes a description of the applicable NRSRO ratings. Unrated instruments purchased by the Fund will be of comparable quality as determined by the Fund's adviser pursuant to guidelines approved by the Board of Directors.

Bank Obligations. The Fund may purchase U.S. dollar-denominated bank obligations such as time deposits, certificates of deposit and bankers' acceptances issued by domestic and foreign banks. Such banks must have total assets at the time of purchase in excess of \$1 billion. The Fund may also make interest-bearing savings deposits in commercial banks in amounts not in excess of 5% of the Fund's total assets.

Commercial Obligations. The Fund may purchase commercial paper, short-term notes and bonds issued by domestic and foreign corporations that meet the Fund's maturity limitations. These instruments may include Canadian Commercial Paper ("CCP"), which is U.S. dollar-denominated commercial paper issued by a Canadian corporation or a Canadian counterpart of a U.S. corporation, and Europaper, which is U.S. dollar-denominated commercial paper of a foreign issuer.

The Fund may also invest in commercial paper issued in reliance on the so called "private placement" exemption from registration afforded by Section 4(2) of the Securities Act of 1933 ("Section 4(2) paper"). Section 4(2) paper is restricted as to disposition under the federal securities laws and generally is sold to institutional investors such as the Fund who agree that they are purchasing the paper for investment and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) paper normally is resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers who make a market in Section 4(2) paper. Section 4(2) paper will not be subject to the Fund's 10% limitation on illiquid securities set forth below provided that the Board of Directors or the Fund's adviser (pursuant to guidelines adopted by the Board) determines that a liquid trading market exists.

U.S. Government Obligations. The Fund may purchase obligations issued or

guaranteed by the U.S. Government or its agencies and instrumentalities. Examples of the types of U.S. Treasury obligations that may be held by the Fund include U.S. Treasury bills and notes, including "stripped" securities (both interest-only and principal-only) issued by the U.S. Treasury and recorded in the Federal Reserve book-entry record-keeping system. "Stripped" U.S. Treasury securities include zero coupon obligations that are normally issued at a discount to their "face value," and may exhibit greater price volatility than ordinary debt securities. Obligations of certain agencies and instrumentalities of the U.S. Government, such as the Small Business Administration, are backed by the full faith and credit of the United States. Others are backed by the right of the issuer to borrow from the U.S. Treasury (such as obligations of the Federal Home Loan Bank), by the discretionary authority of the U.S. Government to purchase the agency's obligations (such as obligations of the Federal National Mortgage Association) or only by the credit of the agency or instrumentality issuing the obligation (such as the Student Loan Marketing Association). Securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities have historically involved little risk of loss of principal if held to maturity. However, no assurance can be given that the U.S. Government would provide financial support to any agency or instrumentality if it were not obligated to do so by law.

**Foreign Government Obligations.** The Fund may invest in U.S. dollar-denominated obligations issued or guaranteed by foreign governments or any of their political subdivisions, agencies or instrumentalities. Such obligations include debt obligations of supranational entities. Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples of these include the International Bank for Reconstruction and Development (the "World Bank"), the Asian Development Bank and the InterAmerican Development Bank.

**Asset-Backed Securities.** The Fund may purchase asset-backed securities, which are securities backed by mortgages, installment sales contracts, credit card receivables or other assets. The average life of asset-backed securities varies with the maturities of the underlying instruments, and the average life of a mortgage-backed instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of mortgage prepayments. For this and other reasons, an asset-backed security's stated maturity may be shortened, and the security's total return may be difficult to predict precisely. Such difficulties are not, however, expected to have a significant effect on the Fund since the remaining maturity of any asset-backed security acquired will be thirteen months or less. Asset-backed securities acquired by the Fund may include collateralized mortgage obligations ("CMOs") issued by private companies.

**Participations.** The Fund may purchase from domestic financial institutions participation interests in high quality debt securities. A participation interest gives the Fund an undivided interest in the security in the proportion that the Fund's participation interest bears to the total principal amount of the security. Participation interests may have fixed, floating or variable rates of interest, and will have remaining maturities of thirteen months or less (as defined by the Securities and Exchange Commission). If a participation interest

is unrated, the adviser will have determined that the interest is of comparable quality to those instruments in which the Fund may invest pursuant to guidelines approved by the Company's Board of Directors. The Fund intends only to purchase participations from an entity or syndicate, and does not intend to serve as a co-lender in any participation. For certain participation interests, the Fund will have the right to demand payment, on not more than 30 days' notice, for all or any part of the Fund's participation interest in the security, plus accrued interest. As to these instruments, the Fund intends to exercise its right to demand payment only upon a default under the terms of the security, as needed to provide liquidity, or to maintain or improve the quality of its investment portfolio. It is possible that a participation interest might be deemed to be an extension of credit by the Fund to the issuing financial institution that is not a direct interest in the credit of the obligor of the underlying security and is not directly entitled to the protection of any collateral security provided by such obligor. In such event, the ability of the Fund to obtain repayment might depend on the issuing financial institution.

Repurchase Agreements. The Fund may agree to purchase securities from financial institutions, such as banks and broker-dealers, as are deemed creditworthy by the adviser under guidelines approved by the Board of Directors, subject to the seller's agreement to repurchase them at an agreed upon time and price ("repurchase agreements"). Although the securities subject to a repurchase agreement may bear maturities exceeding thirteen months, the Fund intends only to enter into repurchase agreements having maturities not exceeding 60 days. Securities subject to repurchase agreements are held either by the Fund's custodian, or sub-custodian, or in the Federal Reserve/Treasury Book-Entry System.

The seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount that exceeds the repurchase price, and such value (including accrued interest) will be continuously monitored by the adviser on an ongoing basis. Default by the seller would, however, expose the Fund to possible loss because of adverse market action or delay in connection with the disposition of the underlying obligations. Repurchase agreements are considered to be loans under the Investment Company Act of 1940.

Reverse Repurchase Agreements. The Fund may borrow monies for temporary purposes by entering into reverse repurchase agreements in accordance with the investment restrictions described below. Pursuant to such agreements, the Fund would sell portfolio securities to financial institutions and agree to repurchase them at an agreed upon date and price. At the time the Fund enters into a reverse repurchase agreement, it will place in a segregated custodial account liquid assets or high grade debt securities having a value equal to or greater than the repurchase price and the adviser will continuously monitor the account to ensure that the value is maintained. The Fund would only enter into reverse repurchase agreements to avoid otherwise selling securities during unfavorable market conditions to meet redemptions. Reverse repurchase agreements involve the risk that the market value of the portfolio securities sold by the Fund may decline

below the price of the securities the Fund is obligated to repurchase. Interest paid by the Fund in connection with a reverse repurchase agreement will reduce the Fund's net investment income. Reverse repurchase agreements are considered to be borrowings under the Investment Company Act of 1940.

Variable and Floating Rate Instruments. Securities purchased by the Fund may include variable and floating rate instruments, which may have a stated maturity in excess of the Fund's maturity limitations but which will, except for certain U.S. Government obligations, permit the Fund to demand payment of the principal of the instrument at least once every thirteen months upon not more than thirty days' notice. Such instruments may include variable amount master demand notes that permit the indebtedness thereunder to vary in addition to providing for periodic adjustments in the interest rate. There may be no active secondary market with respect to a particular variable or floating rate instrument. Nevertheless, the periodic readjustments of their interest rates tend to assure that their value to the Fund will approximate their par value. Illiquid variable and floating rate instruments (instruments which are not payable upon seven days notice and do not have an active trading market) that are acquired by the Fund are subject to the percentage limitations described below under "Illiquid Investments." The adviser will continuously monitor the creditworthiness of issuers of variable and floating rate instruments in which the Fund invests, and their ability to repay principal and interest.

Variable and floating rate instruments purchased by the Fund may include participation certificates issued by trusts or financial institutions in variable and floating rate obligations owned by such issuers or affiliated organizations. A participation certificate gives the Fund a specified undivided interest (up to 100%) in the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the participation interest from the institution upon a specified number of days' notice. If the credit of the obligor is of minimal credit risk, no credit support from a bank or other financial institution will be necessary. In other circumstances, the participation certificate will be backed by an irrevocable letter of credit or guarantee of a bank, or will be insured by an insurer, that the Fund's adviser has determined meets the quality standards for the Fund.

The Fund may also invest in obligations which provide for a variable or floating interest rate which is determined through a periodic "auction process." From time to time, holders of the obligations have the right to tender any such obligations to a remarketing agent which then remarkets the obligations which have been tendered and thereby determines a new interest rate for the following period.

When-Issued Purchases, Forward Commitments and Delayed Settlements. The Fund may purchase securities on a "when-issued basis" and may purchase or sell securities on a "forward commitment" basis. The Fund may also purchase or sell securities on a "delayed settlement" basis. When-issued and forward commitment transactions, which involve a commitment by the Fund to purchase or sell particular securities with payment and delivery taking place at a future date (perhaps one or two months later), permit the Fund to lock in a price or yield

on a security it owns or intends to purchase, regardless of future changes in interest rates. Delayed settlement describes a securities transaction in the secondary market for which settlement will occur sometime in the future. When issued, forward commitment and delayed settlement transactions involve the risk, however, that the yield or price obtained in a transaction may be less favorable than the yield or price available in the market when the securities delivery takes place. The Fund's forward commitments, when-issued purchases and delayed settlements are not expected to exceed 25% of the value of the Fund's total assets absent unusual market conditions. The Fund's liquidity and the ability of the adviser to manage the Fund's portfolio may be adversely affected in the event the Fund's forward commitments, commitments to purchase when-issued securities and delayed settlements ever exceeded 25% of the value of the Fund's assets. The Fund does not intend to engage in these transactions for speculative purposes but only in furtherance of its investment objective.

**Securities Lending.** To increase income on portfolio securities, the Fund may lend its portfolio securities to broker-dealers and other institutional investors pursuant to agreements requiring that the loans be continuously secured by collateral equal at all times in value to at least the market value of the securities loaned plus accrued interest. Collateral for such loans may include cash or securities of the U.S. Government, securities of U.S. Government agencies or instrumentalities or an irrevocable letter of credit issued by a bank which meets the investment standards of the Fund. Such loans will not be made if, as a result, the aggregate of all outstanding loans of the Fund exceeds 30% of the value of its total assets. There may be risks of delay in receiving additional collateral or in recovering the securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially. However, loans will be made only to borrowers deemed by the adviser to be of good standing and when, in the adviser's judgment, the income to be earned from the loan justifies the attendant risks.

**Foreign Investments.** Because the Fund may hold securities issued by foreign issuers, the Fund may be subject to investment risks that are different in some respects from those incurred by a fund which invests only in debt obligations of U.S. domestic issuers. Such risks include future political and economic developments, the possible imposition of withholding taxes on interest income payable on the securities by the particular country in which the issuer is located, the possible seizure or nationalization of foreign deposits, the possible establishment of exchange controls or the adoption of other foreign governmental restrictions which might adversely affect the payment of principal and interest on these securities. In addition, foreign banks and other issuers are not necessarily subject to the same regulatory requirements that apply to domestic issuers (such as reserve requirements, loan limitations, examinations, accounting, auditing and recordkeeping requirements and public availability of information) and the Fund may experience difficulties in obtaining or enforcing a judgment against a foreign issuer.

**Illiquid Investments.** The Fund will not knowingly invest more than 10% of the value of its net assets in securities that are illiquid. Repurchase agreements, securities loans and time deposits that do not provide for payment to the Fund within seven days after notice and securities that are not registered under the

Securities Act of 1933 but that may be purchased by institutional buyers under Rule 144A, are subject to this 10% limit (unless such securities are commercial paper and variable amount master demand notes with maturities of nine months or less or unless the Board or the adviser, pursuant to guidelines adopted by the Board, determines that a liquid trading market exists).

Investment Limitations. The Fund's investment objective is a fundamental policy that may not be changed without a vote of the holders of a majority of the Fund's outstanding shares (as defined in the Investment Company Act of 1940). The Fund's policies may be changed by the Company's Board of Directors without the affirmative vote of the holders of a majority of the Fund's outstanding shares, except that the investment limitations set forth below may not be changed without such a vote of shareholders. A description of certain other fundamental investment limitations is contained in the Statement of Additional Information.

The Fund may not:

1. Purchase any securities which would cause, at the time of purchase, less than 25% of the value of its total assets to be invested in obligations of issuers in the banking industry or in obligations, such as repurchase agreements, secured by such obligations (unless the Fund is in a temporary defensive position) or which would cause, at the time of purchase, 25% or more of the Fund's total assets to be invested in the securities of one or more issuers conducting their principal business activities in any other industry, provided that (a) there is no limitation with respect to obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or repurchase agreements secured by such obligations; (b) wholly-owned finance companies will be considered to be in the industries of their parents if their activities are primarily related to financing the activities of the parents; and (c) the industry classification of utilities will be determined according to their service. For example, gas, gas transmission, electric and gas, electric and telephone will each be considered a separate industry.
2. Borrow money or issue senior securities, except that the Fund may borrow from banks and enter into reverse repurchase agreements for temporary purposes in amounts up to one-third of the value of the total assets at the time of such borrowing; or mortgage, pledge or hypothecate any assets, except in connection with any such borrowing and then in amounts not in excess of one-third of the value of the Fund's total assets at the time of such borrowings. The Fund will not purchase securities while its borrowings (including reverse repurchase agreements) in excess of 5% of its total assets are outstanding. Securities held in escrow or separate accounts in connection with the Fund's investment practices described in this Prospectus or the Statement of Additional Information are not deemed to be pledged for purposes of this limitation.

Investment Decisions. Investment decisions for the Fund are made independently from those for other investment companies and accounts managed by Bank of America and its affiliated entities. Such other investment companies and

accounts may also invest in the same securities as the Fund. When a purchase or sale of the same security is made at substantially the same time on behalf of the Fund and another investment company or account, available investments or opportunities for sales will be allocated in a manner which Bank of America believes to be equitable. In some instances, this investment procedure may adversely affect the price paid or received by the Fund or the size of the position obtained or sold by the Fund. In addition, in allocating purchase and sale orders for portfolio securities (involving the payment of brokerage commissions or dealer concessions), Bank of America may take into account the sale of shares of the Fund by broker-dealers and other financial institutions (including affiliates of Bank of America and the Fund's distributor), provided Bank of America believes that the quality of the transaction and the amount of the commission are not less favorable than what they would be with any other unaffiliated qualified firm.

#### Management of the Fund

**Board of Directors.** The business of the Company is managed under the direction of its Board of Directors. Information about the Directors and officers of the Company is included in the Statement of Additional Information.

**Investment Adviser.** Bank of America serves as investment adviser to the Fund. Bank of America, which has principal offices located at 555 California Street, San Francisco, California 94104, is a national banking association formed in 1904 which provides commercial banking and trust business through an extensive system of branches across the western United States. Bank of America's principal banking affiliates operate branches in ten U.S. states as well as corporate banking and business credit offices in major U.S. cities and branches, corporate offices and representative offices in 37 countries. Bank of America and its affiliates have over \$50 billion under management, including over \$10 billion in mutual funds. Bank of America is a subsidiary of BankAmerica Corporation, a registered bank holding company.

As investment adviser Bank of America manages the investments of the Fund and is responsible for all purchases and sales of the Fund's portfolio securities. For its investment advisory services Bank of America is entitled to receive a fee accrued daily and payable monthly at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. This amount may be reduced pursuant to certain undertakings by Bank of America described below under "Fee Waivers." The Fund paid advisory fees to the Bank of America at an effective annual rate of .07% of the Fund's average net assets for the fiscal year ended February 28, 1995, and Bank of America waived advisory fees at an effective rate of .03% of the Fund's average net assets for the same period.

In addition, Bank of America is also entitled to fees under the Company's Shareholder Services Plan described below and may receive fees charged directly to its customers' accounts in connection with investments in Fund shares.

**Administrator.** Concord Holding Corporation (the "Administrator") serves as the

Company's administrator and assists generally in supervising the Fund's operations. The Administrator is a wholly-owned subsidiary of The BISYS Group, Inc. Its offices are located at 125 West 55th Street, New York, New York 10019.

Under its basic administrative services agreement for the Fund, the Administrator has agreed to provide facilities, equipment and personnel to carry out administrative services that are for the benefit of the Fund, including coordination of reports to shareholders and the Securities and Exchange Commission; calculation of the net asset value of Fund shares and dividends and capital gains distributions to shareholders; payment of the costs of maintaining the Fund's offices; preparation of tax returns; provision of internal legal and accounting compliance services; maintenance (or oversight of the maintenance by others approved by the Board of Directors) of the Fund's books and records; and the provision of various services for shareholders who have made a minimum investment of at least \$500,000 including the provision of a facility to receive purchase and redemption orders for the accounts of such shareholders.

For its administrative services the Administrator is entitled to receive an administration fee computed daily and payable monthly at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. The Fund paid administration fees to the Administrator at an effective annual rate of .07% of the Fund's average net assets for the fiscal year ended February 28, 1995, and the Administrator waived administration fees at an effective annual rate of .03% of the Fund's average net assets for the same period.

Pursuant to the authority granted in its agreement with the Company, the Administrator has entered into an agreement with The Bank of New York under which the bank performs certain of the services listed above e.g. calculating the net asset value of Fund shares and dividends to shareholders and maintaining the Fund's books and records. The Fund bears all fees and expenses charged by The Bank of New York for these services.

Distributor. Concord Financial Group, Inc. (the "Distributor") is the principal underwriter and distributor of shares of the Fund. The Distributor is a wholly-owned subsidiary of the Administrator organized to distribute shares of mutual funds to institutional and retail investors. Its offices are located at 125 West 55th Street, New York, New York 10019.

The Distributor makes a continuous offering of the Fund's shares and bears the costs and expenses of printing and distributing to selected dealers and prospective investors copies of any prospectuses, statements of additional information and annual and interim reports of the Fund (after such items have been prepared and set in type by the Fund) which are used in connection with the offering of shares, and the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Fund's shares for sale to the public.

Custodian and Transfer Agent. The Bank of New York, located at 90 Washington



Street, New York, New York 10286, serves as the Fund's custodian. Concord Financial Services, Inc., a wholly-owned subsidiary of the Administrator located at First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, Pennsylvania 15222, serves as transfer agent and dividend disbursing agent for Horizon Shares of the Fund. DST Systems, Inc. ("DST"), 811 Main, Kansas City, Missouri 64105-2005, serves as transfer agent and dividend disbursing agent for Horizon Service Shares of the Fund. Concord Financial Services, Inc. also provides sub-transfer agency services for certain Horizon Service Share accounts. DST Systems, Inc. and Concord Financial Services, Inc. are collectively referred to as the "Transfer Agents." The Company has also entered into a Cash Management and Related Services Agreement with The Bank of New York pursuant to which The Bank of New York receives and disburses funds in connection with the purchase and redemption of, and the payment of dividends and other distributions with respect to, the Fund's shares.

Fee Waivers. Except as noted in this Prospectus and the Statement of Additional Information, the Fund's service contractors bear all expenses in connection with the performance of their services and the Fund bears the expenses incurred in its operation. Such fund expenses include taxes, interest, brokerage fees and commissions, if any, fees of directors who are not officers, directors, partners, employees or holders of 5% or more of the outstanding voting securities of Bank of America or the Administrator or any of their affiliates, Securities and Exchange Commission fees and state securities qualification fees, advisory fees, administration fees, fees payable to Shareholder Organizations, fund accounting fees, charges of custodians, transfer and dividend disbursing agents' fees, certain insurance premiums, outside auditing and legal expenses, costs of maintaining corporate existence, costs attributable to investor services, including without limitation certain telephone expenses, costs of preparing and printing prospectuses and statements of additional information for regulatory purposes, costs of shareholders' reports and corporate meetings and any extraordinary expenses. From time to time during the course of the Fund's fiscal year, the Administrator and/or Bank of America may voluntarily not receive payment of fees and/or assume certain expenses of the Fund, while retaining the ability to be reimbursed by the Fund for such amounts prior to the end of the fiscal year and, subject to the expense limitations of certain states, to stop such fee waivers and expense reimbursements at any time. This will have the effect of increasing yield to investors at the time such fees are not received or amounts are assumed and decreasing yield when such fees or amounts are reimbursed.

## Purchase and Redemption of Shares

Purchase Procedures. Fund shares are sold at the net asset value per share next determined after receipt of a purchase order by the Transfer Agents. Purchase orders placed directly with the Transfer Agents without the assistance of a broker-dealer or other person are without charge. Broker-dealers (other than the Fund's distributor) and others who process purchase orders on behalf of customers may charge a fee for their services.

Purchase orders for shares are accepted by the Fund only on a day on which both the Fund's custodian and the New York Stock Exchange

(the "Exchange") are open for business (a "Business Day"), and must be transmitted to the Transfer Agents by telephone c/o the Distributor (800) 426-3863 or terminal access. An investment in Horizon Shares and Horizon Service Shares of the Fund automatically entitles the investor to purchase Fund shares, subject to the minimum described below, without charge, by telephone unless they indicate in a written notice to the Transfer Agents that they do not wish to use this telephone privilege.

Purchase orders for the Fund that are received by the Transfer Agents before 12:00 noon Eastern time on a Business Day will be executed at such time on that day if payment is received by 4:00 p.m. Eastern time on such Business Day. Orders received after 12:00 noon Eastern time on a Business Day, and orders for which payment has not been received by 4:00 p.m. Eastern time, will not be accepted. The Fund may in its discretion reject any order for shares. Payment for orders which are not received or paid for in a timely manner or are not accepted by the Fund will be returned after prompt notification to the sending institution.

Payment for shares may be made only in federal funds or other funds immediately available to the Transfer Agents. The minimum initial investment for Horizon Shares and Horizon Service Shares in the Fund is \$500,000 (although broker-dealers and other institutional investors may set a higher minimum for their customers) and there is no minimum subsequent investment. The Fund reserves the right to suspend the sale of shares to the public at any time, in response to conditions in the securities markets or otherwise.

Federal regulations require that each investor provide a certified Taxpayer Identification Number upon opening or reopening an account.

Redemption Procedures. Redemption orders for Horizon Shares and Horizon Service Shares must be transmitted to the Transfer Agents by telephone c/o the Distributor or terminal access in the manner described above under "Purchase Procedures." Shares for which certificates have been issued may not be redeemed unless the certificates have been submitted to the Transfer Agents and endorsed for transfer. While the Fund seeks to maintain its net asset value per share at \$1.00 there can be no assurance that it will be able to do so, and the proceeds paid upon redemption may be more or less than the amount invested depending upon a share's net asset value at the time of redemption.

Redemption orders submitted directly to the Transfer Agents without the assistance of a broker-dealer or other person, and orders submitted by the Distributor for its own brokerage customers, are processed without charge. Broker-dealers (other than the Distributor) and others who process redemption orders on behalf of their customers may charge a fee for their services.

Redemption orders are effected at the net asset value per share next determined after receipt of the order by the Transfer Agents. Payment for redeemed shares for which a redemption order is received by the Transfer Agents before 12:00 noon Eastern time on a Business Day is normally made in federal funds wired to the redeeming shareholder on the same Business Day. Payment for redeemed shares for which a redemption order is received after 12:00 noon

Eastern time on a Business Day is normally made in federal funds wired to the redeeming shareholder on the next Business Day following redemption. In order to allow Bank of America to most effectively manage the Fund's portfolio, investors are urged to initiate redemptions of shares as early in the day as possible and to notify the Transfer Agents at least one day in advance of redemptions in excess of \$5 million. The Fund reserves the right to wire redemption proceeds up to seven days after receiving the redemption order if, in the judgment of the adviser, an earlier payment could adversely affect the Fund. In making redemption requests the names of the registered shareholders and their account numbers must be supplied. An investment in Horizon Shares and Horizon Service Shares of the Fund automatically entitles the investor to redeem shares, without charge, by telephone unless the investor indicates through a written notice to the Transfer Agents that they do not wish to use this telephone privilege. Neither the Fund, the Distributor nor the Transfer Agents will be responsible for any loss or expense for acting upon any telephone instructions that are reasonably believed to be genuine. In attempting to confirm that telephone instructions are genuine, the Company will use such procedures as are considered reasonable.

The Fund may suspend the right of redemption or postpone the date of payment upon redemption (as well as suspend or postpone the recordation of the transfer of its shares) for such periods as are permitted under the Investment Company Act of 1940. The Fund reserves the right to redeem shares in any account at their net asset value if the value of the account is less than \$500,000 as a result of redemptions. The shareholder having the account will first be notified in writing that its account has a value of less than \$500,000 and will be allowed 60 days to make additional investments to bring the value of its account to \$500,000 before the redemption is processed by the Fund. In addition, the Fund may redeem shares involuntarily under certain special circumstances described in the Statement of Additional Information under "Purchase and Redemption of Shares."

Net Asset Value. The net asset value per share of the Fund is determined on each Business Day as of 12:00 noon Eastern time and the close of regular trading hours on the Exchange (or 4:00 p.m. Eastern time if the Exchange is closed). In computing net asset value, the Fund uses the amortized cost method of valuation as described in the Statement of Additional Information under "Purchase and Redemption of Shares."

#### Dividends and Distributions

The shareholders of the Fund are entitled to dividends and distributions arising from the net investment income and net realized gains, if any, earned on investments held by the Fund. Generally, the Fund's net income is declared daily as a dividend. Shares begin accruing dividends on the day the purchase order for the shares is executed and continue to accrue dividends through and including the day before the redemption order for the shares is executed. Dividends are paid within five business days after the end of each month. Although the Fund does not expect to realize net long-term capital gains, any such capital gains as may be realized will be distributed no more than twice a year after reduction for any available capital loss carry-forward.

Dividends are paid in the form of additional full and fractional shares of the same series as the shares on which the dividends are declared at the net asset value of such shares on the payment date, unless the shareholder elects to receive dividends in cash. Reinvestment dividends receive the same tax treatment as dividends paid in cash. Such election or any revocation thereof must be made in writing to Pacific Horizon Funds, Inc. Prime Value Fund, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, Pennsylvania 15222, and will become effective with respect to dividends paid after its receipt by the dividend disbursing agent.

## Taxes

Federal. Management of the Company believes that the Fund qualified for its last taxable year as a "regulated investment company" under the Internal Revenue Code of 1986, as amended (the "Code"), and it is intended that the Fund will continue to qualify as a regulated investment company as long as such qualification is in the best interest of the Fund's shareholders. Such qualification generally relieves the Fund of liability for federal income taxes to the extent its earnings are distributed in accordance with the Code.

In connection with such tax qualification, the Fund contemplates declaring as dividends at least 90% of its investment company taxable income for each taxable year. An investor of the Fund who receives a dividend derived from net investment company taxable income (including any excess of net short-term capital gain over net long-term capital loss) treats it as ordinary income in the computation of his gross income, whether such dividend is paid in the form of cash or additional Fund shares. Because all of the net investment income of the Fund is expected to be derived from earned interest, it is anticipated that all dividends paid by the Fund will be taxable as ordinary income to shareholders who are not exempt from federal income taxes and that no part of any distribution paid by the Fund will be eligible for the dividends received deduction for corporations.

Although the Fund anticipates that it will not have net long-term capital gain, any distribution of the Fund's excess of net long-term capital gain over its net short-term capital loss will be taxable to shareholders as long-term capital gain regardless of how long the shareholder has held Fund shares.

Dividends declared in December of any year payable to shareholders of record on a specified date in December will be deemed for federal tax purposes to have been paid by the Fund and received by the shareholders on December 31, if such dividends are paid during January of the following year.

The foregoing is only a brief summary of some of the important federal income tax considerations generally affecting the Fund and its shareholders, and is based on federal tax laws and regulations which are in effect as of the date of this Prospectus. Such laws and regulations may be changed by legislative or administrative actions. Potential investors in the Fund should consult their tax advisers with specific reference to their own tax situation. Shareholders will be advised at least annually as to the federal income tax consequences of

distributions made each year.

State and Local. Investors are advised to consult their tax advisers concerning the application of state and local taxes, which may have different consequences from those of the federal income tax law described above.

#### Description of Shares

The Company was organized on October 27, 1982 as a Maryland corporation, and is registered under the Investment Company Act of 1940 as an open-end management investment company. The Fund, which is classified as diversified under the Investment Company Act of 1940, commenced operations on March 16, 1993 as a portfolio of the Company with a single series of shares, Pacific Horizon Shares. Horizon Shares were first offered on May 16, 1994. As of the date of this Prospectus, no Horizon Service Shares of the Fund have been issued. The Company's charter authorizes the Board of Directors to issue up to two hundred billion full and fractional shares of capital stock, and to classify and reclassify any authorized and unissued shares into one or more classes of shares. The Board of Directors may similarly classify or reclassify any class of shares into one or more series. Pursuant to such authority, the Board of Directors has authorized the issuance of the following series of shares representing interests in the Prime Value Fund: eight billion Horizon Shares, one and one-half billion Horizon Service Shares and one and one-half billion Pacific Horizon Shares. Pacific Horizon Shares of the Fund are described in a separate Prospectus available from the Distributor at the telephone number on the cover page of this Prospectus. The Board of Directors has also authorized the issuance of additional classes of shares representing interests in other investment portfolios of the Company, which are likewise described in separate prospectuses available from the Distributor. This Prospectus relates primarily to the Horizon Shares and Horizon Service Shares of the Fund and describes only the investment objective and policies, operations, contracts and other matters relating to such shares.

Each Horizon Share, Horizon Service Share and Pacific Horizon Share in the Fund has a par value of \$.001 and, except as noted below, is entitled to participate equally in the dividends and distributions declared by the Board of Directors with respect to the Fund and in the net distributable assets of the Fund on liquidation. Holders of the Fund's Horizon Service Shares bear the fees described in the following section that are paid to Shareholder Organizations (including Bank of America, the Administrator and their affiliates) by the Fund under the Company's Shareholder Services Plan. Similarly, holders of the Fund's Pacific Horizon Shares bear the fees described in the prospectus for such shares that are paid to Bank of America and the Administrator by the Fund under the Company's Special Management Services Agreement for Pacific Horizon Shares. The fees paid under the Special Management Services Agreement are for services related to investor programs and facilities that are offered in connection with Pacific Horizon Shares. Holders of Horizon Shares are not subject to fees such as those paid under the Shareholder Services Plan or the Special Management Services Agreement. As a result, at any given time, the net yield on the Fund's Horizon Shares is expected to be approximately .25% higher than the yield on the Fund's Horizon Service Shares and approximately .32% higher than the yield on

its Pacific Horizon Shares. Standardized yield quotations will be computed separately for each series of shares.

Shareholders are entitled to one vote for each full share held and fractional votes for fractional shares held, and will vote in the aggregate and not by class or series except as otherwise required by law or when class voting is permitted by the Board of Directors. For example, it is contemplated that all shareholders of the Fund will vote together as a single class on matters relating to the Fund's investment advisory agreement and on any change in its fundamental investment limitations, and that only holders of Horizon Service Shares of the Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the Fund's arrangements with Shareholder Organizations. Shares have no preemptive rights and only such conversion and exchange rights as the Board may grant at its discretion. When issued for payment as described in this Prospectus, shares will be fully paid and nonassessable. Certificates for shares will not be issued unless expressly requested in writing and will not be issued for fractional shares.

The Company does not presently intend to hold annual meetings of shareholders for the election of directors and other business unless and until such time as less than a majority of the directors holding office have been elected by the shareholders of the Company, at which time the directors then in office will call a shareholders' meeting for the election of directors. Under certain circumstances, however, shareholders have the right to call a meeting of shareholders to consider the removal of one or more directors and such meetings will be called when requested by the holders of record of 10% or more of the Company's outstanding shares of common stock. To the extent required by law and the Company's undertaking with the Securities and Exchange Commission, the Company will assist in shareholder communications in such matters. Shares have cumulative voting rights to the extent that may be required by applicable law.

Shareholder Services Plan. The Company has adopted the Plan pursuant to which Horizon Service Shares are sold to Shareholder Organizations that enter into Shareholder Service Agreements with the Company pursuant to the Plan. Such Shareholder Organizations may include Bank of America, the Administrator and their affiliates. The Shareholder Service Agreements require the Shareholder Organizations to provide support services to their customers ("Customers") who are beneficial owners of Horizon Service Shares in return for payment by the Fund of up to .25% (on an annualized basis) of the average daily net asset value of the Horizon Service Shares beneficially owned by Customers of the Shareholder Organizations. Holders of the Fund's Horizon Service Shares will bear all fees paid to Shareholder Organizations for their services with respect to such shares. Such fees are not paid to Shareholder Organizations with respect to the Fund's Horizon Shares or Pacific Horizon Shares.

The services provided by Shareholder Organizations may include the following: aggregating and processing purchase and redemption requests from Customers for Horizon Service Shares and placing net purchase and redemption orders with the Distributor; providing Customers with a service that invests the assets of their accounts in Horizon Service Shares pursuant to specific or preauthorized instructions; processing dividend payments from the Fund on behalf of Customers;

providing information periodically to Customers regarding their position in Horizon Service Shares; arranging for bank wires; responding to Customer inquiries regarding services performed by the Shareholder Organizations; providing sub-accounting with respect to Horizon Service Shares beneficially owned by Customers or the information necessary for sub-accounting; forwarding shareholder communications from the Fund to Customers; and other similar services if requested by the Fund.

The Fund will accrue payments made pursuant to the Plan daily. The Fund will receive an under taking from each Shareholder Organization waiving a portion of any payment such Organization is entitled to receive pursuant to the Plan to the extent necessary to assure that the payments made pursuant to the Plan which are required to be accrued to the Fund's Horizon Service Shares on any day do not exceed the income to be accrued to such shares on that day.

The Company understands that Shareholder Organizations may charge fees to their Customers who are the beneficial owners of Horizon Service Shares in connection with their Customer accounts. These fees would be in addition to any amounts which may be received by a Shareholder Organization under a Shareholder Service Agreement. Under the terms of the Shareholder Service Agreements, Shareholder Organizations are required to disclose the compensation payable to them by the Company and any other compensation payable by their Customers in connection with the investment of their assets in the Fund. Customers of Shareholder Organizations should read this Prospectus in light of the terms governing their accounts with their Shareholder Organizations.

Conflict-of-interest restrictions may apply to an institution's receipt of compensation paid by the Fund in connection with the investment of fiduciary funds in Horizon Service Shares. Institutions, including banks regulated by the Comptroller of the Currency, the Federal Reserve Board or the Federal Deposit Insurance Corporation, and investment advisers and other money managers subject to the jurisdiction of the Securities and Exchange Commission, the Department of Labor or state securities commissions, are urged to consult their legal advisers before investing fiduciary funds in Horizon Service Shares.

Banks may act as Shareholder Organizations. The Glass-Steagall Act and other applicable laws, among other things, prohibit banks from engaging in the business of underwriting securities. If a bank were prohibited from acting as a Shareholder Organization, its shareholder clients would be permitted by the Company to remain shareholders of the Fund and alternative means for continuing the servicing of such shareholders would be sought. In such event, changes in the operation of the Fund might occur and a shareholder serviced by such bank might no longer be able to avail itself of any automatic investment or other services then being provided by the bank. It is not expected that shareholders would suffer any adverse financial consequences as a result of any of these occurrences.

In connection with the sale of shares of the Fund, the Company will obtain representations from Shareholder Organizations (as well as from Bank of America and the Administrator) that they are or will be licensed as dealers as required

by applicable law or will not engage in activities which would require them to be so licensed.

COIPV95P

PACIFIC HORIZON MUTUAL FUNDS

Horizon Shares

and

Horizon Service Shares

of the

Prime Value Fund

PROSPECTUS

July 1, 1995

NOT FDIC INSURED



Exhibit 17.4 to Form N-14

PACIFIC HORIZON FUNDS, INC.

Pacific Horizon Shares

of the

Prime Value Fund

Statement of Additional Information

July 1, 1995

TABLE OF CONTENTS

	PAGE
The Company	2
Investment Objective and Policies	2
Additional Purchase and Redemption Information	14
Additional Information Concerning Taxes	20
Management of the Company	22
General Information	40
Appendix A	A-1

-----

This Statement of Additional Information applies to Pacific Horizon Shares of the Prime Value Fund (the "Fund") of Pacific Horizon Funds, Inc. (the "Company"). This Statement of Additional Information is meant to be read in conjunction with the prospectus dated July 1, 1995, as the same may from time to time be further revised (the "Prospectus"), describing the Fund, and is incorporated by reference in its entirety into such Prospectus. Because this Statement of Additional Information is not itself a prospectus, no investment in shares of the Fund should be made solely upon the information contained herein. Copies of the Prospectus relating to Pacific Horizon Shares of the Fund may be obtained by calling Concord Financial Group, Inc. at (800) 332-3863. Capitalized terms used but not defined herein have the same meanings as in the Prospectus.

THE COMPANY

The Company was organized on October 27, 1982 as a Maryland

corporation and commenced operations on March 30, 1984.

The Company also offers other classes and series of shares, including Horizon Shares and Horizon Service Shares, in the Fund and in other investment portfolios which are described in separate Prospectuses and Statements of Additional Information. For information concerning these other shares contact the Distributor at the telephone number stated on the cover page of this Statement of Additional Information.

#### INVESTMENT OBJECTIVE AND POLICIES

The Prospectus describes the Fund's investment objective. The following information supplements and should be read in conjunction with the description of the investment objective and policies for the Fund in the Prospectus.

#### Portfolio Transactions

Subject to the general control of the Company's Board of Directors, Bank of America National Trust and Savings Association ("Bank of America") is responsible for, makes decisions with respect to and places orders for all purchases and sales of portfolio securities for the Fund. Securities purchased and sold by the Fund are generally traded in the over-the-counter market on a net basis (i.e., without commission) through dealers, or otherwise involve transactions directly with the issuer of an instrument. For the period March 16, 1993 (commencement of operations) through February 28, 1994 and for the fiscal year ended February 28, 1995, the Prime Value Fund did not pay any brokerage commissions. The cost of securities purchased by the Fund from underwriters generally includes an underwriting commission or concession, and the prices at which securities are purchased from and sold to dealers include a dealer's mark-up or mark-down.

In executing portfolio transactions and selecting brokers or dealers, it is the Company's policy to seek the best overall terms available. The Investment Advisory Agreement between the Company and Bank of America provides that, in assessing the best overall terms available for any transaction, Bank of America shall consider factors it deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer, and the reasonableness of the commission, if any, for the specific transaction and on a continuing basis. In addition, the Investment Advisory Agreement authorizes Bank of America, subject to the approval of the Company's Board of Directors, to cause the Company to pay a broker-dealer which furnishes brokerage and research services a higher commission than that which might be charged by another broker-dealer for effecting the same transaction, provided that such commission is deemed reasonable in terms of either that particular transaction or the overall responsibilities of Bank of America to the Fund and the Company. Brokerage and research services may include: (1) advice as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or purchasers or sellers of securities and (2) analyses and reports concerning industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. The Board of Directors will periodically review the commissions paid by the Company to consider whether the commissions, if any, paid over representative periods of

time appear to be reasonable in relation to the benefits inuring to the Company.

Brokerage or research services so received are in addition to and not in lieu of services required to be performed by Bank of America and do not reduce the advisory fee payable to Bank of America by the Company. Such services may be useful to Bank of America in serving both the Company and other clients and, conversely, services obtained by the placement of business of other clients may be useful to Bank of America in carrying out its obligations to the Company. In particular, it is possible that certain of the brokerage or research services received will primarily benefit one or more other investment companies or other accounts for which investment discretion is exercised. Conversely, the Company or the Fund may be the primary beneficiary of the brokerage or research services received as a result of portfolio transactions effected for such other accounts or investment companies.

The Company will not acquire certificates of deposit or other securities issued by Bank of America or its affiliates, and will give no preference to certificates of deposit or other securities issued by Service Organizations. In addition, portfolio securities in general will be purchased from and sold to Bank of America, Concord Financial Group, Inc. (the "Distributor") and their affiliates acting as principal, underwriter, syndicate member, market-maker, dealer, broker or in any other similar capacity, provided such purchase, sale or dealing is permitted under the Investment Company Act of 1940 and the rules thereunder.

The Fund's annual portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the year by the monthly average value of the Fund's portfolio securities. The calculation excludes all securities the maturities of which at the time of acquisition were thirteen months or less. The Fund's annual portfolio turnover rate is expected to be zero for regulatory reporting purposes.

When investing in portfolio securities, the Fund may participate, if and when practicable, in bidding for the purchase of securities directly from an issuer in order to take advantage of the lower purchase price available to members of a bidding group. The Fund will engage in this practice only when Bank of America, in its sole discretion, subject to guidelines adopted by the Board of Directors, believes such practice to be in the Fund's interest.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. The Board of Directors or Bank of America, pursuant to guidelines established by the Board, will promptly consider such an event in determining whether the Fund should continue to hold the obligation, but will only continue to hold the obligation if retention is in accordance with the interests of the Fund and applicable regulations of the Securities and Exchange Commission. In addition, it is possible that unregistered securities purchased by the Fund in reliance upon Rule 144A under the Securities Act of 1933 could have the effect of increasing the level of the Fund's illiquidity to the extent that qualified institutional buyers become, for a period, uninterested in purchasing these securities.

To the extent permitted by law, Bank of America may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for other investment companies or common trust funds in order to

obtain best execution.

The Company is required to identify any securities of its regular brokers or dealers (as defined in Rule 10b-1 under the Investment Company Act of 1940) or their parents held by the Company as of the close of its most recent fiscal year. As of February 28, 1995: (a) the Treasury Fund held the following securities, Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$95,000,000; Repurchase Agreement with Merrill Lynch Government Securities, Inc. in the principal amount of \$95,000,000; (b) the Prime Fund held the following securities, Merrill Lynch & Co., Inc., commercial paper in the principal amount of \$100,000,000; Goldman, Sachs Group L.P., Daily Variable Rate Master Note in the principal amount of \$120,000,000; Morgan Stanley Group, Inc., Daily Variable Rate Master Note in the principal amount of \$120,000,000; Bear Stearns Co., Inc., Series B, Monthly Variable Rate Note in the principal amount of \$100,000,000; Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$120,000,000; (c) the Government Fund held the following securities, Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$40,000,000; Repurchase Agreement with Merrill Lynch Government Securities, Inc. in the principal amount of \$40,000,000; and (d) the Prime Value Fund held the following securities, Merrill Lynch & Co., Inc., commercial paper in the principal amount of \$7,000,000; Goldman, Sachs Group L.P., Daily Variable Rate Master Note in the principal amount of \$7,000,000; Repurchase Agreement with Dean Witter Reynolds, Inc. in the principal amount of \$8,000,000; Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$8,000,000. Merrill Lynch & Co., Inc., Goldman, Sachs & Co., Bear Stearns Co., Inc., Morgan Stanley & Co. Incorporated, Shearson Lehman Brothers, Inc., Dean Witter Reynolds, Inc. and Paine Webber are considered to be regular brokers and dealers of the Company.

#### Portfolio Instruments

Certificates of Deposit, Bankers' Acceptances, Commercial Paper and Short-Term Notes. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specific return. Bankers' acceptances are negotiable deposits or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are "accepted" by a bank (meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument at maturity). Certificates of deposit and bankers' acceptances acquired by the Fund will be dollar-denominated obligations of domestic or foreign banks having total assets at the time of purchase in excess of \$1 billion (including assets of both domestic and foreign branches). Commercial paper consists of unsecured promissory notes issued by corporations. Short-term notes acquired by the Fund may be issued by commercial or investment banking firms, financing companies or industrial or manufacturing concerns. Commercial paper and short-term notes, except for variable and floating rate instruments, will normally have maturities of less than nine months and fixed rates of return, although such instruments may have maturities of up to thirteen months. Commercial paper and short-term notes will consist of issues which are "First Tier Securities" as defined by the Securities and Exchange Commission. First Tier Securities consist of instruments that are either rated at the time of purchase in the top rating category by one or more unaffiliated nationally recognized statistical rating organizations ("NRSROs") or issued by issuers with such ratings. See the Appendix to this Statement of

Additional Information for a description of the applicable NRSRO ratings. Unrated instruments (including instruments with long-term but no short-term ratings) purchased by the Fund will be of comparable quality as determined by Bank of America pursuant to guidelines approved by the Board of Directors and Bank of America.

When holding obligations of foreign issuers, the Fund may be subject to investment risks that are different in some respects from those incurred by a fund which invests only in obligations of domestic issuers. Such risks include future political and economic developments, the possible imposition of withholding taxes by the particular country in which the issuer is located on interest income payable on the securities, the possible seizure or nationalization of foreign deposits, the possible establishment of exchange controls or the adoption of other foreign governmental restrictions which might adversely affect the payment of principal and interest on these securities.

Domestic banks and foreign banks are subject to different governmental regulations with respect to the amount and types of loans which may be made and interest rates which may be charged. In addition, the profitability of the banking industry is dependent largely upon the availability and cost of funds for the purpose of financing lending operations under prevailing money market conditions. General economic conditions as well as exposure to credit losses arising from possible financial difficulties of borrowers play an important part in the operations of the banking industry.

As a result of federal and state laws and regulations, domestic banks are, among other things, required to maintain specified levels of reserves, limited in the amount which they can loan to a single borrower, and subject to other regulations designed to promote financial soundness. However, such laws and regulations do not necessarily apply to the Euro Cds, Yankee Cds, Yankee Bas and other foreign bank obligations that the Fund may acquire.

U.S. Government Obligations. Obligations of the U.S. Government and its agencies and instrumentalities include Treasury bills, certificates of indebtedness, notes and bonds, Treasury strips, and issues of such entities as the Federal Home Loan Banks, Federal Land Banks, Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association, General Services Administration, Student Loan Marketing Association, Central Bank for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Maritime Administration, Resolution Funding Corporation, Tennessee Valley Authority and Federal National Mortgage Association.

Mortgage-Related Securities. Government National Mortgage Association ("GNMA") certificates are U.S. Government agency mortgage-backed securities representing part ownership of a pool of mortgage loans. These loans, issued by lenders such as mortgage bankers, commercial banks and savings and loan associations, are either insured by the Federal Housing Administration or guaranteed by the Veterans Administration. A "pool" or group of such mortgages is assembled and, after being approved by GNMA, is offered to investors through securities dealers. Once approved by GNMA, the timely payment of interest and principal on each mortgage is guaranteed by GNMA and backed by the full faith and credit of the U.S. Government. GNMA certificates differ from bonds in that principal is paid back monthly by the borrower over the term of the loan rather than returned in a lump sum at maturity. GNMA certificates are

called "pass-through" securities because both interest and principal payments (including prepayments) are passed through to the holder of the certificate. In addition to GNMA certificates, mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") and by the Federal Home Loan Mortgage Corporation ("FHLMC") may also be acquired. Securities issued and guaranteed by FNMA and FHLMC are not backed by the full faith and credit of the United States. If either fixed or variable rate pass-through securities issued by the U.S. Government or its agencies or instrumentalities are developed in the future, the Fund reserves the right to invest in them, after making appropriate disclosure to investors. Prepayment of mortgages underlying most mortgage-backed securities may reduce their current yield and total return. During periods of declining interest rates, such prepayments can be expected to accelerate and the Funds would be required to reinvest the proceeds at the lower interest rates then available.

Variable and Floating Rate Instruments. The Fund may acquire variable and floating rate instruments as described in the Prospectus. Variable and floating rate instruments are frequently not rated by credit rating agencies; however, unrated variable and floating rate instruments purchased by the Fund will be determined by the investment adviser under guidelines established by the Company's Board of Directors to be of comparable quality at the time of purchase to rated instruments eligible for purchase by the Fund. In making such determinations, the investment adviser will consider the earning power, cash flows and other liquidity ratios of the issuers of such instruments (such issuers include financial, merchandising, bank holding and other companies) and will continuously monitor their financial condition. There may not be an active secondary market with respect to a particular variable or floating rate instrument purchased by the Fund. The absence of such an active secondary market could make it difficult for the Fund to dispose of the variable or floating rate instrument involved. In the event the issuer of the instrument defaulted on its payment obligations, the Fund could, for this or other reasons, suffer a loss to the extent of the default. Variable and floating rate instruments may be secured by bank letters of credit and may have maturities of more than thirteen months. In determining the Fund's average weighted maturity and whether a variable or floating rate instrument has a remaining maturity of thirteen months or less, each variable rate instrument having a demand feature that entitles the Fund to receive the principal amount thereof at any time, or at specified intervals not exceeding thirteen months, in each case on not more than thirty days' notice, shall be deemed by the Company to have a maturity equal to the longer of the period remaining until its next interest rate adjustment or the period remaining until the principal amount can be recovered through demand; each variable rate instrument not having such a demand feature but having a stated maturity of thirteen months or less or issued or guaranteed by the U.S. Government or its agencies will be deemed to have a maturity equal to the period remaining until the next interest rate adjustment; each floating rate instrument having a demand feature that entitles the Fund to receive the principal amount thereof at any time, or at specified intervals not exceeding thirteen months, in each case on not more than thirty days' notice, shall be deemed to have a maturity equal to the period of time remaining until the principal amount owed can be recovered through demand. Variable and floating rate instruments which are not payable upon seven days' notice and which do not have an active trading market are considered illiquid securities.

Ratings and Issuers' Obligations. The ratings of Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, Division of McGraw

Hill ("S&P"), Duff & Phelps Credit Rating Co. ("D&P"), Fitch Investors Service, Inc. ("Fitch"), Thomson Bankwatch ("Thomson") and IBCA Limited and IBCA Inc. ("IBCA") represent their opinions as to the quality of debt securities. However, ratings are general and are not absolute standards of quality, and debt securities with the same maturity, interest rate and rating may have different yields while debt securities of the same maturity and interest rate with different ratings may have the same yield.

An issuer's obligations under its debt securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code and laws which may be enacted by federal or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or, in the case of governmental entities, upon the ability of such entities to levy taxes. The power or ability of an issuer to meet its obligations for the payment of interest on, and principal of, its debt securities may be materially adversely affected by litigation or other conditions.

Municipal Securities. Although the Fund is authorized to invest in municipal securities under certain circumstances, it is expected that no more than 5% of the value of its net assets will be so invested at any one time during the current fiscal year. The purchase of municipal securities may be advantageous when, as a result of prevailing economic, regulatory or other circumstances, the yield of such securities, on a pre-tax basis, is comparable to that of corporate or U.S. Government obligations. Dividends paid by the Fund that are derived from interest on municipal securities would be taxable to the Fund's shareholders for federal income tax purposes.

Municipal securities include debt obligations issued by governmental entities to obtain funds for various public purposes, including the construction of a wide range of public facilities, the refunding of outstanding obligations, the payment of general operating expenses and the extension of loans to public institutions and facilities. In addition certain types of private activity bonds are issued by or on behalf of public authorities to finance various privately-operated facilities. Municipal securities also include short-term tax anticipation notes, bond anticipation notes, revenue anticipation notes and other forms of short-term loan obligations. Such notes are issued with a short-term maturity in anticipation of the receipt of tax funds, the proceeds of bond placements or other revenues.

There are variations in the quality of municipal securities between classifications (such as general obligation, revenue and moral obligation issues) and within a particular classification, and the yields on municipal securities depend upon a variety of factors, including general money market conditions, the financial condition of the issuer, general conditions of the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue.

The payment of principal and interest on most municipal securities purchased by the Fund will depend upon the ability of the issuers to meet their obligations. The District of Columbia, each state, each of their political subdivisions, agencies, instrumentalities and authorities and each multi-state agency of which a state is a member is a separate "issuer" as that term is used in this Statement of Additional Information and the Prospectus. The non-

governmental user of facilities financed by private activity bonds is also considered to be an "issuer."

Repurchase Agreements. The Fund may enter into repurchase agreements as indicated in the Prospectus. Pursuant to such agreements, the Fund purchases securities from financial institutions such as banks and broker-dealers which are deemed to be creditworthy by the investment adviser under guidelines approved by the Board of Directors, subject to the seller's agreement to repurchase and the Fund's agreement to resell such securities at a specified date and price. The Fund will not enter into repurchase agreements with Bank of America or Bank of America's affiliates, nor will the Fund give preference to repurchase agreements with Service Organizations. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the underlying portfolio security). Securities subject to repurchase agreements will be held by the Fund's custodian or a sub-custodian or in the Federal Reserve/Treasury book-entry system, and the Fund will make payment for such securities only upon receipt of evidence of physical delivery of the securities or of such book entry. The seller under a repurchase agreement will be required to maintain the value of the underlying securities at not less than 102% of the repurchase price under the agreement. If the seller defaulted on its repurchase obligation, the Fund would suffer a loss to the extent that the proceeds from a sale of the underlying securities were less than the repurchase price under the agreement. Bankruptcy or insolvency of such a defaulting seller may cause the Fund's rights with respect to such securities to be delayed or limited. Repurchase agreements are considered to be loans by the Fund under the Investment Company Act of 1940.

Reverse Repurchase Agreements. The Fund may also enter into reverse repurchase agreements with respect to its securities. Whenever the Fund enters into a reverse repurchase agreement, it will place in a segregated account maintained with the Fund's custodian liquid assets such as cash, U.S. Government securities and other liquid high-grade debt securities having a value equal to the repurchase price (including accrued interest) and will subsequently monitor the account for maintenance of such equivalent value. Reverse repurchase agreements are considered to be borrowings by the Fund under the Investment Company Act of 1940.

#### Investment Practices

When-Issued Securities, Forward Commitments and Delayed Settlements. The Fund may purchase securities on a "when-issued," forward commitment or delayed settlement basis (i.e., for delivery beyond the normal settlement date at a stated price and yield). When the Fund agrees to purchase securities on a when-issued, forward commitment or delayed settlement basis, its custodian will set aside cash or liquid portfolio securities equal to the amount of the commitment in a separate account. Normally the custodian will set aside portfolio securities to satisfy a purchase commitment, and in such a case the Fund may be required subsequently to place additional assets (cash or liquid securities) in the separate account so that the value of the account remains equal to the amount of the Fund's commitment. The Fund does not intend to engage in these transactions for speculative purposes but only in furtherance of its investment objective. Because the Fund will set aside cash or liquid investments to satisfy its purchase commitments in the manner described, the Fund's liquidity and the ability of the investment adviser to manage it may be



affected in the event the Fund's forward commitments, commitments to purchase when-issued securities and delayed settlements ever exceeded 25% of the value of its assets.

The Fund will purchase securities on a when-issued, forward commitment or delayed settlement basis only with the intention of completing the transaction. If deemed advisable as a matter of investment strategy, however, the Fund may dispose of or renegotiate a commitment after it is entered into, and may sell securities it has committed to purchase before those securities are delivered to the Fund on the settlement date. In these cases the Fund may realize a taxable capital gain or loss.

When the Fund engages in when-issued, forward commitment and delayed settlement transactions, it relies on the other party to consummate the trade. Failure of such party to do so may result in the Fund's incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

The market value of the securities underlying a when-issued purchase, a forward commitment to purchase securities, or a delayed settlement and any subsequent fluctuations in their market value is taken into account when determining the Fund's market value starting on the day the Fund agrees to purchase the securities. The Fund does not earn interest on the securities it has committed to purchase until they are paid for and delivered on the settlement date.

**Lending Securities.** The Fund may lend its securities to brokers, dealers and financial institutions, provided (1) the loan is secured continuously by collateral consisting of U.S. Government securities (including securities of U.S. Government agencies and instrumentalities) or cash or letters of credit which is marked to the market daily to ensure that each loan is fully collateralized at all times; (2) the Fund may at any time call the loan and obtain the return of the securities loaned within five business days; (3) the Fund will receive any interest or dividends paid on the securities loaned; and (4) the aggregate market value of securities loaned will not at any time exceed 30% of the total assets of the Fund.

The Fund will earn income for lending its securities because cash collateral pursuant to these loans will be invested in short term money market instruments. In connection with lending securities, the Fund may pay reasonable finders, administrative and custodial fees. Loans of securities involve a risk that the borrower may fail to return the securities or may fail to provide additional collateral.

#### Investment Limitations

The Prospectus for the Fund sets forth certain fundamental policies that may not be changed without the affirmative vote of the holders of the majority of the Fund's outstanding shares (as defined below under "Miscellaneous"). Similarly, the following enumerated additional fundamental policies may not be changed without such a vote of shareholders.

The Fund may not:

1. Purchase securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities)

if immediately thereafter more than 5% of its total assets would be invested in the securities of any one issuer (except that up to 25% of the Fund's total assets may be invested without regard to this limitation).

2. Purchase or sell real estate (however, the Fund may, to the extent appropriate to its investment objective, purchase securities issued by companies investing in real estate or interests therein).

3. Underwrite the securities of other issuers.

4. Purchase securities of companies for the purpose of exercising control.

5. Purchase securities on margin, make short sales of securities or maintain a short position.

6. Make loans except that (i) the Fund may purchase or hold debt instruments and enter into repurchase agreements pursuant to its investment objective and policies, and (ii) the Fund may lend portfolio securities.

\* \* \*

If a percentage restriction is satisfied at the time of investment, a later increase or decrease in such percentage resulting from a change in asset value will not constitute a violation of such restriction.

For purposes of the Fund's investment limitation concerning industry concentration, U.K. Building Societies will be considered to be in the banking industry. The Fund will not invest more than 5% of its net assets (at the time of purchase) in instruments issued by U.K. Building Societies.

For purposes of Investment Limitation P 1 in the Fund's Prospectus, the Fund treats, in accordance with the current views of the staff of the Securities and Exchange Commission and as a matter of non-fundamental policy that may be changed without a vote of shareholders, all supranational organizations as a single industry and each foreign government (and all of its agencies) as a separate industry.

For purposes of Investment Limitation P 1 of this Statement of Additional Information, the guarantor of a guaranteed security may, in certain circumstances, also be considered to be an issuer in connection with such guarantee. In addition, in accordance with current regulations of the Securities and Exchange Commission and as a matter of non-fundamental policy, the Fund presently intends to limit its investments in the securities of any single issuer (other than securities issued by the U.S. Government, its agencies or instrumentalities) to not more than 5% of the Fund's total assets at the time of purchase, provided that the Fund may invest up to 25% of its total assets in the securities of any one issuer for a period that does not exceed three business days.

For purposes of Investment Limitation P 6 of this Statement of Additional Information, the Fund may hold debt instruments whether such instruments are part of a public offering or privately negotiated.

In order to permit the sale of shares in certain states, the Fund may make commitments more restrictive than the investment policies and limitations described above. To permit the sale of the shares of the Fund in Texas, the Company has agreed to the following additional restrictions with respect to the Fund:

1. The Fund will not invest in oil, gas or mineral leases.
2. The Fund will not invest in real estate limited partnership.

Should the Fund determine that these commitments or any other commitments are no longer in the best interests of the Fund, it will revoke such commitments by terminating sales of its shares in the state involved.

#### ADDITIONAL PURCHASE AND REDEMPTION INFORMATION

Information on how to purchase and redeem Company shares, and how such shares are priced, is included in the Prospectus. Additional information is contained below.

#### Net Asset Value

In General. The Fund's net asset value per share is calculated by dividing the total value of the assets belonging to the Fund, less the value of any liabilities applicable to the Fund, by the total number of outstanding shares of the Fund. "Assets belonging to" the Fund consist of the consideration received upon the issuance of shares representing interests in the Fund together with all income, earnings, profits and proceeds derived from the investment thereof, any proceeds from the sale, exchange or liquidation of such investments, any funds or payments derived from any re-investment of such proceeds, and a portion of any general assets of the Company not belonging to a particular fund. The Fund is charged with its direct expenses and with a share of the general expenses of the Company. The determinations by the Board of Directors as to direct and allocable expenses and the allocable portion of general assets with respect to the various portfolios are conclusive. The expenses that are charged to the Fund are borne equally by each share of the Fund except for certain payments that are borne solely by Pacific Horizon Shares of the Fund and payments to Shareholder Organizations that are borne solely by Horizon Service Shares of the Fund as described in the Prospectuses for such Shares.

Amortized Cost Method. The Fund uses the amortized cost method of valuation in computing the net asset value of its shares for purposes of sales and redemptions. Under this method the Fund values each of its portfolio securities at cost on the date of purchase and thereafter assumes a constant proportionate amortization of any discount or premium until maturity of the security. As a result the value of a portfolio security for purposes of determining net asset value normally does not change in response to fluctuating interest rates. While the amortized cost method seems to provide certainty in portfolio valuation it may result in periods during which values, as determined by amortized cost, are higher or lower than the amount the Fund would receive if it sold its portfolio securities. The market value of the securities in the

Fund can be expected to vary inversely with changes in prevailing interest rates. Thus, if interest rates have increased from the time a security was purchased, such security, if sold, might be sold at a price less than its amortized cost. Similarly, if interest rates have declined from the time a security was purchased, such security, if sold, might be sold at a price greater than its amortized cost. In either instance, if the security is held to maturity, no gain or loss will be realized.

In connection with its use of amortized cost valuation, the Fund limits the dollar-weighted average maturity of its portfolio to not more than 90 days and does not purchase any instrument with a remaining maturity of greater than 397 calendar days. The Company's Board of Directors has also established, pursuant to rules promulgated by the Securities and Exchange Commission, procedures that are intended to stabilize the Fund's net asset value per share for purposes of sales and redemptions at \$1.00. Such procedures include the determination, at such intervals as the Board deems appropriate, of the extent, if any, to which the Fund's net asset value per share calculated by using available market quotations deviates from \$1.00 per share. In the event such deviation exceeds 1/2 of 1% the Board will promptly consider what action, if any, should be initiated. If the Board believes that the amount of any deviation may result in material dilution or other unfair results to investors or existing shareholders, it will take such steps as it considers appropriate to eliminate or reduce to the extent reasonably practicable any such dilution or unfair results. These steps may include selling portfolio instruments prior to maturity, shortening the Fund's average portfolio maturity, withholding or reducing dividends, reducing the number of the Fund's outstanding shares without monetary consideration or determining net asset value per share by using available market quotations. If the Fund reduces the number of its outstanding shares without monetary consideration, it will mail written notice to shareholders at least three business days before the redemption and in the notice will state the reason for the redemption and the fact that the redemption may result in a capital loss to shareholders.

The Funds' administrator, Concord Holding Corporation (the "Administrator"), may use a pricing service to value certain portfolio securities where the prices provided are believed to reflect the fair value of such securities. In valuing the Fund's securities, the pricing service would normally take into consideration such factors as yield, risk, quality, maturity, type of issue, trading characteristics, special circumstances and other factors it deems relevant in determining valuations for normal institutional-sized trading units of debt securities and would not rely on quoted prices. The methods used by the pricing service and the valuations so established will be utilized under the general supervision of the Company's Board of Directors. Additionally, in determining market-based net asset value per share all portfolio securities for which market quotations (or appropriate substitutes that reflect current market conditions) are not readily available shall be valued at that fair value as determined by the valuation committee in accordance with procedures established by the Board of Directors.

#### Supplementary Purchase Information

Persons wishing to purchase Pacific Horizon Shares through their accounts at Bank of America or a Service Organization should contact such entity directly for appropriate instructions. Depending on the terms of the particular account, Bank of America, its affiliates, and Service Organizations also may

charge their customers fees for automatic investment, redemption and other services provided. Such fees may include, for example, account maintenance fees, compensating balance requirements or fees based upon account transactions, assets or income. Bank of America or the particular Service Organization is responsible for providing information concerning these services and any charges to any customers who must authorize the purchase of shares prior to such purchase.

Persons wishing to purchase Pacific Horizon Shares by wire who have not established an account should telephone the Transfer Agent at (800) 346-2087. The investor must furnish sufficient information to permit the account to be opened. The investor's bank must be instructed to wire federal funds to the Transfer Agent, referring in the wire to the Fund's name; the investor's portfolio account number, if then established; and the investor's name.

Shares may be purchased in connection with IRAs only by direct remittance to the Transfer Agent. Purchases for IRA accounts will be effective only when payments received by the Transfer Agent are converted into federal funds. Purchases for these plans may not be made in advance of receipt of funds. The Transfer Agent may charge a fee to act as custodian for IRAs, payment of which could require the liquidation of shares. All fees charged are described in the appropriate form.

#### Supplementary Redemption Information

Pacific Horizon Shares of the Fund for which orders for wire redemption are received on a business day before 12:00 noon (Eastern Time) will be redeemed as of such time and the proceeds of redemption will normally be wired in federal funds on the same business day to the commercial bank specified by the investor on the Account Application (or other bank of record on the investor's file with the Transfer Agent). An investor must have completed and forwarded to the Transfer Agent an Account Application, including any required signature guarantees, before any redemptions of shares purchased by wire may be processed. To qualify to use the wire redemption privilege, payment for shares must be drawn on, and redemption proceeds paid to, the same bank and account as designated on the Account Application (or other bank of record as described above). If the proceeds of a particular redemption are to be wired to another bank, the request must be in writing and signature guaranteed. Pacific Horizon Shares for which orders for wire redemption are received on a business day after the time stated above or on a non-business day will be redeemed as of the next determination of the Fund's net asset value and the proceeds of redemption will normally be wired in federal funds on the next business day after receipt of the redemption request. Redemption proceeds will be wired to a correspondent member bank if the investor's designated bank is not a member of the Federal Reserve System. Immediate notification by the correspondent bank to the investor's bank is necessary to avoid a delay in crediting the funds to the investor's bank account. Proceeds of less than \$1,000 will be mailed to the investor's address.

To change the commercial bank or account designated to receive redemption proceeds, a written request must be sent to the Company, c/o DST Systems, Inc., P.O. Box 419955, Kansas City, Missouri 64141-6955. Such request must be signed by each shareholder, with each signature guaranteed as described in the Fund's Prospectus. Guarantees must be signed by an authorized signatory and "signature guaranteed" must appear with the signature. The Transfer Agent may request further documentation from corporations, executors, administrators,

trustees or guardians, and will accept other suitable verification arrangements from foreign investors, such as consular verification.

For processing redemptions, the Transfer Agent may request further documentation from corporations, executors, administrators, trustees or guardians. The Transfer Agent will accept other suitable verification arrangements from foreign investors, such as consular verification.

Investors should be aware that if they have selected the TeleTrade Privilege, any request for a telephone redemption will be effected as a TeleTrade transaction through the Automated Clearing House (ACH) system unless more prompt transmittal specifically is requested. Redemption proceeds of a TeleTrade transaction will be on deposit in the investor's account at the ACH member bank normally two business days after receipt of the redemption request.

Exchange Privilege. Shareholders in the Pacific Horizon Family of Funds have an exchange privilege whereby they may exchange all or part of their Pacific Horizon Shares for shares of other investment portfolios in the Pacific Horizon Family of Funds. By use of the exchange privilege, the investor authorizes the Transfer Agent to act on telephonic, telegraphic or written exchange instructions from any person representing himself to be the investor and believed by the Transfer Agent to be genuine. The Transfer Agent's records of such instructions are binding. The exchange privilege may be modified or terminated at any time upon notice to shareholders. For federal income tax purposes, exchange transactions are treated as sales on which a purchaser will realize a capital gain or loss depending on whether the value of the shares exchanged is more or less than his basis in such shares at the time of the transaction.

Exchange transactions described in Paragraphs A, B, C and D below will be made on the basis of the relative net asset values per share of the investment portfolios involved in the transaction.

- A. Shares of any investment portfolio purchased with a sales load, as well as additional shares acquired through reinvestment of dividends or distributions on such shares, may be exchanged without a sales load for shares of any other investment portfolio in the Pacific Horizon Family of Funds.
- B. Shares of any investment portfolio in the Pacific Horizon Family of Funds acquired by a previous exchange transaction involving shares on which a sales load has directly or indirectly been paid (e.g. shares purchased with a sales load or issued in connection with an exchange transaction involving shares that had been purchased with a sales load), as well as additional shares acquired through reinvestment of dividends or distributions on such shares, may be redeemed and the proceeds used to purchase without a sales load shares of any other investment portfolio. To accomplish an exchange transaction under the provisions of this Paragraph, investors must notify the Transfer Agent of their prior ownership of shares and their account number.
- C. Shares of any investment portfolio in the Pacific Horizon Family of Funds may be exchanged without a sales load for shares of any other investment portfolio in the Family that is offered without a sales

load.

- D. Shares of any investment portfolio in the Pacific Horizon Family of Funds purchased without a sales load may be exchanged without a sales load for shares in any other portfolio where the investor involved maintained an account in the Pacific Horizon Family of Funds before April 20, 1987 or was the beneficial owner of shares of Bunker Hill Income Securities, Inc. on the date of its reorganization into the Pacific Horizon Corporate Bond Fund.

Except as stated above, a sales load will be imposed when shares of any investment portfolio in the Pacific Horizon Family of Funds that were purchased or otherwise acquired without a sales load are exchanged for shares of another investment portfolio in the Pacific Horizon Family which are sold with a sales load.

Exchange requests received on a business day prior to the time shares of the investment portfolios involved in the request are priced will be processed on the date of receipt. "Processing" a request means that shares in the investment portfolio from which the shareholder is withdrawing an investment will be redeemed at the net asset value per share next determined on the date of receipt. Shares of the new investment portfolio into which the shareholder is investing will also normally be purchased at the net asset value per share next determined coincident to or after the time of redemption. Exchange requests received on a business day after the time shares of the investment portfolios involved in the request are priced will be processed on the next business day in the manner described above.

Miscellaneous. Certificates for shares will not be issued unless expressly requested in writing and will not be issued for fractional shares.

A "business day" for purposes of processing share purchases and redemptions received by the Transfer Agent at its Kansas City office is a day on which the Fund's custodian and the New York Stock Exchange are open for trading, except a "business day" does not include Martin Luther King, Jr. Day, Columbus Day or Veteran's Day. In 1995, the holidays on which the New York Stock Exchange is closed are: Presidents' Day, Good Friday, Memorial Day (observed), Independence Day, Labor Day, Thanksgiving Day and Christmas.

The Company may suspend the right of redemption or postpone the date of payment for shares during any period when (a) trading on the New York Stock Exchange is restricted by applicable rules and regulations of the Securities and Exchange Commission; (b) the New York Stock Exchange is closed for other than customary weekend and holiday closings; (c) the Securities and Exchange Commission has by order permitted such suspension; or (d) an emergency exists as determined by the Securities and Exchange Commission. (The Company may also suspend or postpone the recordation of the transfer of its shares upon the occurrence of any of the foregoing conditions.)

The Company's Charter permits its Board of Directors to require a shareholder to redeem involuntarily shares in the Fund if the balance held of record by the shareholder drops below \$500 and such shareholder does not increase such balance to \$500 or more upon 60 days' notice. The Company may also redeem shares involuntarily if such redemption is appropriate to carry out the Company's responsibilities under the Investment Company Act of 1940.

If the Company's Board of Directors determines that conditions exist which make payment of redemption proceeds wholly in cash unwise or undesirable, the Company may make payment wholly or partly in readily marketable securities or other property. In such an event, a shareholder would incur transaction costs in selling the securities or other property. The Company has committed that it will pay all redemption requests by a shareholder of record in cash, limited in amount with respect to each shareholder during any ninety-day period to the lesser of \$250,000 or 1% of the net asset value at the beginning of such period.

#### ADDITIONAL INFORMATION CONCERNING TAXES

The following is only a summary of certain additional considerations generally affecting the Fund and its shareholders that are not described in the Fund's Prospectus. No attempt is made to present a detailed explanation of the tax treatment of the Fund or its shareholders, and the discussion here and in the Prospectus is not intended as a substitute for careful tax planning. Investors are advised to consult their tax advisers with specific reference to their own tax situations.

The Fund will be treated as a separate corporate entity under the Internal Revenue Code of 1986, as amended (the "Code"), and intends to qualify as a "regulated investment company." By following this policy, the Fund expects to eliminate or reduce to a nominal amount the federal income taxes to which it may be subject. If for any taxable year the Fund does not qualify for the special federal tax treatment afforded regulated investment companies, all of the Fund's taxable income would be subject to tax at regular corporate rates (without any deduction for distributions to shareholders). In such event, the Fund's dividend distributions to shareholders would be taxable as ordinary income to the extent of the current and accumulated earnings and profits of the Fund and would be eligible for the dividends received deduction in the case of corporate shareholders.

Qualification as a regulated investment company under the Code requires, among other things, that the Fund distribute to its shareholders an amount equal to at least the sum of 90% of its investment company taxable income (if any) and 90% of its tax-exempt income (if any) net of certain deductions for each taxable year. In general, the Fund's investment company taxable income will be its taxable income, subject to certain adjustments and excluding the excess of any net long-term capital gain for the taxable year over the net short-term capital loss, if any, for such year. The Fund will be taxed on its undistributed investment company taxable income, if any.

The Fund will not be treated as a regulated investment company under the Code if 30% or more of its gross income for a taxable year is derived from gains realized on the sale or other disposition of securities and certain other investments held for less than three months (the "short-short test"). Interest (including original issue and market discount) received by the Fund upon maturity or disposition of a security held for less than three months will not be treated as gross income derived from the sale or other disposition of such security within the meaning of this requirement. However, any other income which is attributable to realized market appreciation will be treated as gross



income from the sale or other disposition of securities for this purpose.

Any distribution of the excess of net long-term capital gains over net short-term capital losses is taxable to shareholders as long-term capital gains, regardless of how long the shareholder has held the Fund's shares and whether such gains are received in cash or additional Fund shares. The Fund will designate such a distribution as a capital gain dividend in a written notice mailed to shareholders after the close of the Fund's taxable year.

Ordinary income of individuals is taxable at a maximum nominal rate of 39.6%, but because of limitations on itemized deductions otherwise allowable and the phase-out of personal exemptions, the maximum effective marginal rate of tax for some taxpayers may be higher. An individual's long-term capital gains are taxable at a maximum nominal rate of 28%. For corporations, long-term capital gains and ordinary income are both taxable at a maximum nominal rate of 35% (or at a maximum effective marginal rate of 39% in the case of corporations having taxable income between \$100,000 and \$335,000).

A 4% non-deductible excise tax is imposed on regulated investment companies that fail to currently distribute specified percentages of their ordinary taxable income and capital gain net income (excess of capital gains over capital losses). The Fund intends to make sufficient distributions or deemed distributions of its ordinary taxable income and any capital gain net income prior to the end of each calendar year to avoid liability for this excise tax.

The Company will be required in certain cases to withhold and remit to the United States Treasury 31% of taxable dividends or gross sale proceeds realized paid to shareholders who have failed to provide a correct tax identification number in the manner required, who are subject to withholding by the Internal Revenue Service for failure to properly include on their return payments of taxable interest or dividends, or who have failed to certify to the Company that they are not subject to backup withholding when required to do so or that are "exempt recipients."

#### Other Information

Depending upon the extent of activities in states and localities in which its offices are maintained, in which its agents or independent contractors are located, or in which it is otherwise deemed to be conducting business, the Fund may be subject to the tax laws of such states or localities. Shareholders are advised to consult their tax advisers concerning the application of state and local taxes.

The foregoing discussion is based on tax laws and regulations which are in effect on the date of this Statement of Additional Information. Such laws and regulations may be changed by legislative or administrative action.

#### MANAGEMENT OF THE COMPANY

##### Directors and Officers

The directors and officers of the Company, their addresses, ages, and principal occupations during the past five years are:

<TABLE>

<CAPTION>

Name and Address <S>	Age <C>	Company <C>	Position with Principal Occupations <C>
Thomas M. Collins* McDermott & Trayner 225 S. Lake Avenue Suite 410 Pasadena, CA 91101-3005 (until April,	61	President and Chairman of the Board	Of counsel, law firm of McDermott & Trayner; Partner of the law firm of Musick, Peeler & Garrett

Name and Address	Position with Age	Principal Occupations Company
		1993); Trustee, Master Investment Trust Series I and Master Investment Trust, Series II (registered investment companies); former Director, Bunker Hill Income Securities, Inc. through 1991 (registered investment company).

Douglas B. Fletcher Fletcher Capital Advisors Incorporated 4 Upper Newport Plaza Suite 100 Newport Beach, CA 92660-2629	70 Vice Chairman of the Board	Chairman of the Board and Chief Executive Officer, Fletcher Capital Advisors Incorporated (registered investment adviser) 1991 to date; Partner, Newport Partners (private venture capital management firm) 1981 to date; Chairman of the Board and Chief Executive Officer, First Pacific Advisors, Inc. (registered investment adviser) and seven investment companies under its management, prior to 1983; former Allied Member, New York Stock Exchange; Chairman of the Board of FPA Paramount Fund, Inc. through 1984; Director, TIS Mortgage Investment Company (real estate investment trust); Trustee and former Vice Chairman of the Board, Claremont McKenna College; Chartered Financial Analyst.
--	-------------------------------------	--

Robert E. Greeley 60  
Page Mill Asset  
Management  
433 California Street  
Suite 900  
San Francisco, CA 94104  
Investments, Hewlett

Director

Chairman, Page Mill  
Asset Management (a  
private investment  
company) since 1991;  
Manager, Corporate

Packard Company from 1979  
to 1991; Director, Morgan  
Grenfell Small Cap Fund  
(since 1986); former  
director, Bunker Hill  
Income Securities, Inc.  
(since 1989) (registered  
investment company);  
Trustee, Master Investment  
Trust, Series I and Master  
Investment Trust, Series  
II (registered investment  
companies); former  
Trustee, SunAmerica Fund  
Group (previously Equitec  
Siebel Fund Group) from  
1984 to 1992.

Kermit O. Hanson 79  
17760 14th Ave., N.W.  
Seattle, WA 98177

Director

Vice Chairman of the  
Advisory Board, 1988 to  
date, Executive  
Director, 1977 to 1988,  
Pacific Rim Bankers  
Program, (a non-profit  
educational institution);  
Dean Emeritus, 1981 to  
date, Dean, 1964-81,  
Graduate School of  
Business Administration,  
University of Washington;  
Director, Washington  
Federal Savings & Loan  
Association; Trustee,  
Seafirst Retirement Funds  
(registered investment  
company).

Cornelius J. Pings 66  
Association of American  
American Universities  
Universities,  
One DuPont Circle  
Suite 730  
Washington, DC 20036

Director

President, Association  
of

February 1993 to date;  
Provost, 1982 to January  
1993, Senior Vice  
President for Academic  
Affairs, 1981 to January  
1993, University of

Kenneth L. Trefftz 83  
11131 Briarcliff Drive  
Distinguished  
San Diego, CA 92131-1329  
Professor

Director

Southern California.

Private Investor;  
formerly  
Emeritus

of Finance and Chairman of the Department of Finance and Business Economics of the Graduate School of Business of the University of Southern California; former Director, Metro Goldwyn Mayer Inc.; Director, Fremont General Corporation (insurance and financial services holding company); Director, Source Capital, Inc. (closed-end investment company); Director of three open-end investment companies managed by First Pacific Advisors, Inc.; formerly Chairman of the Board of Directors (or Trustees) of nineteen investment companies managed by American Capital Asset Management, Inc.

Richard E. Stierwalt 40  
West 55th Street  
New York, NY 10019

Executive  
Vice President

Chairman of the Board 125 and Chief Executive Officer July 1993 to date, prior thereto Senior Director, Managing Director and Chief Executive Officer of the Administrator and Distributor, February 1987 to July 1993; President, Master Investment Trust, Series I, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); First Vice President, Trust Operation Administration, Security Pacific National Bank, 1983-1987.

William B. Blundin 57

Executive Vice

Vice Chairman, July 1993

125 West 55th Street  
New York, NY 10019

President

to date, prior thereto Director and President of the Administrator and Distributor, February 1987 to July 1993; Executive Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Senior Vice President, Shearson Lehman Brothers (a securities firm), 1978-1987.

Ann E. Bergin  
125 West 55th Street  
New York, NY 10019

35

Vice President

Senior Vice President, October 1994 to date, prior thereto First Vice President of the Administrator, February 1993 to October 1994; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Vice President of the Administrator, August 1991 to February 1993; Assistant Vice President, The Dreyfus Corporation, December 1982 to August 1991.

Susan L. West  
125 West 55th Street  
New York, NY 10019

37

Assistant Vice President

Chief Operating Officer, July 1993 to date, prior thereto Executive Vice President of the Administrator, May 1987 to July 1993; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Assistant Vice President, Fund Administration and Operations, The Vanguard Group, October 1981 to May 1987.

Irimga McKay  
7863 Girard Avenue  
Suite 306

35

Assistant Vice President

Senior Vice President, July 1993 to date, prior thereto First Vice

La Jolla, CA 92037

President of the Administrator and Distributor, November 1988 to July 1993; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Regional Vice President, Continental Equities, June 1987 to November 1988; Assistant Wholesaler, VMS Realty Partners (a real estate limited partnership), May 1986 to June 1987.

Richard A. Fabietti 36 Treasurer  
125 West 55th Street  
New York, NY 10019

Senior Vice President of the Administrator and Distributor, July 1987 to date; Treasurer, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Assistant Controller-Mutual Funds, Alliance Capital Management Corp., March 1986 to July 1987.

Martin G. Flanigan 31 Assistant Treasurer  
125 West 55th Street  
New York, NY 10019

Vice-President of the Administrator and Distributor since 1987; Assistant Treasurer, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies).

W. Bruce McConnel, III 52  
of the law firm  
1345 Chestnut Street  
Philadelphia National Bank  
Secretary, Master  
Building, Suite 1100  
Philadelphia, PA 19107

Secretary Partner  
Drinker Biddle & Reath;  
Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies).

Linda Mahon  
125 West 55th Street  
New York, NY 10019

38

Assistant Secretary

Vice President  
of the Administrator  
and Distributor, 1994  
to date; Assistant  
Secretary, Master  
Investment Trust, Series  
II and Seafirst Retirement  
Funds (registered  
investment companies);  
Corporate Secretary of J.  
& W. Seligman & Co.  
Incorporated, 1991-1994;  
Vice President of Paribas  
Asset Management, Inc.,  
1989-1991.

George O. Martinez 36 Assistant  
1900 East Dublin-Granville Road Secretary  
Columbus, OH 43229

Senior Vice President  
and Director of Legal  
Compliance Services  
BISYS Fund Services, since  
April 1995; prior thereto,  
Vice President and  
Associate General Counsel,  
Alliance Capital  
Management, L.P.

</TABLE>

\* Mr. Collins is an "interested director" of the  
Company as defined in the Investment Company  
Act of 1940.

The Audit Committee of the Board is comprised of all directors and  
is chaired by Dr. Trefftz. The Board does not  
have an Executive Committee.

Each director is entitled to receive an annual fee of \$25,000 plus  
\$1,000 for each day that a director participates in all or a part of a Board  
meeting. Mr. Collins receives an additional \$40,000 per annum for his services  
as President; each member of a committee of the Board is entitled to receive  
\$1,000 for each Committee meeting they participate in (whether or not held on  
the same day as a Board meeting); and each Chairman of a Committee of the Board  
shall be entitled to receive an annual retainer of \$1,000 for his services as  
Chairman of the Committee. The Fund, and each other Fund of the Company, pays  
its proportionate share of these amounts based on relative net asset values.

For the fiscal year ended February 28, 1995, the Company paid or  
accrued for the account of its directors as a group for services in all  
capacities a total of \$334,168; of this amount, for the fiscal year ended  
February 28, 1995, \$22,999 of directors' compensation was allocated to the Prime  
Value Fund. Each director is also reimbursed for out-of-pocket expenses  
incurred as a director. Drinker Biddle & Reath, of which Mr. McConnel is a  
partner, receives legal fees as counsel to the Company. As of the date of this  
Statement of Additional Information, the directors and officers of the Company,

as a group, own less than 1% of the outstanding shares of each of the Company's investment portfolios.

Under a retirement plan approved by the Board of Directors, including a majority of its directors who are not "interested persons" of the Company, a director who dies or resigns after five years of service is entitled to receive ten annual payments each equal to the greater of: (i) 50% of the annual director's retainer that was payable by the Company during the year of his/her death or resignation, or (ii) 50% of the annual director's retainer then in effect for directors of the Company during the year of such payment. A director who dies or resigns after nine years of service is entitled to receive ten annual payments each equal to the greater of: (i) 100% of the annual director's retainer that was payable by the Company during the year of his/her death or resignation, or (ii) 100% of the annual director's retainer then in effect for directors of the Company during the year of such payment. Further, the amount payable each year to a director who dies or resigns is increased by \$1,000 for each year of service that the director provided as Chairman of the Board.

Years of service for purposes of calculating the benefit described above are based upon service as a director or Chairman after February 28, 1994. Retirement benefits in which a director has become vested may not be reduced by later Board action.

In lieu of receiving ten annual payments, a director may elect to receive substantially equivalent benefits through a single-sum cash payment of the present value of such benefits paid by the Company within 45 days of the death or resignation of the director. The present value of such benefits is to be calculated (i) based on the retainer that was payable by the Company during the year of the director's death or resignation (and not on any retainer payable to directors thereafter), and (ii) using the interest rate in effect as of the date of the director's death or resignation by the Pension Benefit Guaranty Corporation (or any successor thereto) for valuing immediate annuities under terminating defined benefit pension plans. A director's election to receive a single sum must be made in writing within the 30 calendar days after the date the individual is first elected as a director.

In addition to the foregoing, the Board of Directors may, in its discretion and in recognition of a director's period of service before March 1, 1994 as a director and possibly as Chairman, authorize the Company to pay a retirement benefit following the director's death or resignation (unless the director has vested benefits as a result of completing nine years of service). Any such action shall be approved by the Board and by a majority of the directors who are not "interested persons" of the Company within 120 days following the director's death or resignation and may be authorized as a single sum cash payment or as not more than ten annual payments (beginning the first anniversary of the director's date of death or resignation and continuing for one or more anniversary date(s) thereafter).

The obligation of the Company to pay benefits to a former director is neither secured nor funded by the Company but shall be binding upon its successors in interest. The payment of benefits under the retirement plan has no priority or preference over the lawful claims of the Company's creditors or shareholders, and the right to receive such payments is not assignable or transferable by a director (or former director) other than by will, by the laws



of descent and distribution, or by the director's written designation of a beneficiary.

The following chart provides certain information about the director/trustee fees of the Company as of February 28, 1995.

NAME OF PERSON/ POSITION	AGGREGATE COMPENSATION FROM THE COMPANY	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF FUND EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT	TOTAL COMPENSATION FROM REGISTRANT AND FUND COMPLEX* PAID TO DIRECTORS
Thomas M. Collins President and Chairman of the Board	\$100,000	\$0	\$0	\$110,000
Douglas B. Fletcher Vice Chairman of the Board	\$57,500	\$0	\$0	\$57,500
Robert E. Greeley** Director	\$57,500	\$0	\$0	\$65,781
Kermit O. Hanson Director	\$57,500	\$0	\$0	\$63,500
Cornelius J. Pings Director	\$57,500	\$0	\$0	\$57,500
Kenneth L. Trefftzs Director	\$57,500	\$0	\$0	\$57,500

---

\* The "Fund Complex" consists of the Company, Seafirst Retirement Funds, Master Investment Trust, Series I and Master Investment Trust, Series II.

\*\*Mr. Greeley became a director of the Company on April 25, 1994.

#### Investment Adviser

Bank of America is the successor by merger to Security Pacific National Bank, which previously served as investment adviser to the Company since the commencement of its operations. In the Investment Advisory Agreement, Bank of America has agreed to provide investment advisory services as described in the Prospectus. Bank of America has also agreed to pay all expenses incurred by it in connection with its activities under its agreement other than the cost of securities, including brokerage commissions, if any, purchased for the Company. In rendering its advisory services, Bank of America may utilize Bank officers from one or more of the departments of the Bank which are authorized to exercise the fiduciary powers of Bank of America with respect to the investment of trust assets. In some cases, these officers may also serve as officers, and utilize the facilities, of wholly-owned subsidiaries or other affiliates of Bank of America or its parent corporation. For the services provided and expenses assumed pursuant to the Investment Advisory Agreement, the Company has agreed to pay Bank of America fees, accrued daily and payable monthly, at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net

assets over \$10 billion. From time to time, Bank of America may waive fees or reimburse the Company for expenses voluntarily or as required by certain state securities laws.

For the period March 16, 1993 (commencement of operations) through February 28, 1994 and the fiscal year ended February 28, 1995, Bank of America was paid advisory fees (net of fee waivers) with respect to the Fund of \$2,840 and \$289,793, respectively. For the same periods, Bank of America waived advisory fees with respect to the Fund in the amount of \$116,991 and \$121,169, respectively. Additionally, for the periods indicated, Bank of America assumed certain operating expenses with respect to the Fund in the amount of \$75,521 and \$4,439, respectively.

The Investment Advisory Agreement will continue with respect to the Fund until October 31, 1995 and thereafter for successive annual periods of one year, provided such continuation is approved at least annually by the Company's Board of Directors or by a majority of the outstanding shares of the Fund (as described under "Miscellaneous"), and by a majority of the directors who are not interested persons of any party to the agreement by vote cast in person at a meeting called for such purposes. The agreement is terminable at any time with respect to the Fund without payment of any penalty by the Company's Board of Directors or by vote of a majority of the Fund's outstanding shares on 60 days' written notice to Bank of America. Similarly, Bank of America may terminate the Investment Advisory Agreement without penalty upon 60 days' written notice to the Fund. In addition, the agreement provides that it will terminate automatically in the event of its "assignment" (as defined in the Investment Company Act of 1940).

The Company's Investment Advisory Agreement with respect to the Fund provides that Bank of America shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Company in connection with the performance of the Investment Advisory Agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or negligence in the performance of its duties or from reckless disregard by it of its duties and obligations thereunder.

#### The Glass-Steagall Act and Proposed Legislation

The Glass-Steagall Act, among other things, prohibits banks from engaging in the business of underwriting securities, although national and state-chartered banks generally are permitted to purchase and sell securities upon the order and for the account of their customers. In 1971, the United States Supreme Court held in *Investment Company Institute v. Camp* that the Glass-Steagall Act prohibits a national bank from operating a fund for the collective investment of managing agency accounts. Subsequently, the Board of Governors of the Federal Reserve System (the "Board") issued a regulation and interpretation to the effect that the Glass-Steagall Act and such decision forbid a bank holding company registered under the Federal Bank Holding Company Act of 1956 (the "Holding Company Act") or any non-bank affiliate thereof from sponsoring, organizing or controlling a registered, open-end investment company continuously engaged in the issuance of its shares, but do not prohibit such a holding company or affiliate from acting as investment adviser, transfer agent and custodian to such an investment company. In 1981, the United States Supreme

Court held in Board of Governors of the Federal Reserve System v. Investment Company Institute that the Board did not exceed its authority under the Holding Company Act when it adopted its regulation and interpretation authorizing bank holding companies and their non-bank affiliates to act as investment advisers to registered closed-end investment companies.

Bank of America believes that if the question were properly presented, a court should hold that Bank of America may perform the services for the Company contemplated by the Investment Advisory Agreement, the Prospectus and this Statement of Additional Information without violation of the Glass-Steagall Act or other applicable banking laws or regulations. It should be noted, however, that there have been no cases deciding whether a national bank may perform services comparable to those performed by Bank of America and future changes in either federal or state statutes and regulations relating to permissible activities of banks or trust companies and their subsidiaries or affiliates, as well as further judicial or administrative decisions or interpretations of present and future statutes and regulations, could prevent Bank of America from continuing to perform such services for the Company or from continuing to purchase Company shares for the accounts of its customers.

On the other hand, as described herein, the Fund is currently distributed by the Distributor, and the Administrator, its parent, provides the Company with administrative services. If current restrictions under the Glass-Steagall Act preventing a bank from sponsoring, organizing, controlling or distributing shares of an investment company were relaxed, the Company expects that Bank of America would consider the possibility of offering to perform some or all of the services now provided by the Administrator or the Distributor. From time to time, legislation modifying such restriction has been introduced in Congress which, if enacted, would permit a bank holding company to establish a non-bank subsidiary having the authority to organize, sponsor and distribute shares of an investment company. If this or similar legislation were enacted, the Company expects that Bank of America's parent bank holding company would consider the possibility of one of its non-bank subsidiaries offering to perform some or all of the services now provided by the Administrator or the Distributor. It is not possible, of course, to predict whether or in what form such legislation might be enacted or the terms upon which Bank of America or such a non-bank affiliate might offer to provide services for consideration by the Company's Board of Directors.  
Administrator

Concord Holding Corporation (the "Administrator"), with principal offices at 125 West 55th Street, New York 10019, is a wholly-owned subsidiary of The BISYS Group, Inc. The Administrator also serves as administrator to several other investment companies.

The Administrator provides administrative services for the Fund as described in the Prospectus pursuant to a Basic Administrative Services Agreement. The agreement will continue in effect with respect to the Fund until October 31, 1995 and thereafter will continue for successive periods of two years, provided that each such extension is specifically approved (a) by vote of a majority of those members of the Company's Board of Directors who are not interested persons of any party to the agreement, cast in person at a meeting called for the purpose of voting on such approval, and (b) the Company's Board of Directors or by vote of a majority of the outstanding voting securities of such Fund. The agreement is terminable during any term for cause at any time by

the Company's Board of Directors, "cause" being defined and limited for this purpose to mean willful misfeasance, bad faith or negligence by the Administrator in the performance of its obligations and duties under the agreement. The Company's Board of Directors may terminate the agreement at the end of the term without cause upon 60 days prior written notice to the Administrator.

For the services provided and expenses assumed pursuant to the Basic Administrative Services Agreement, the Administrator is entitled to receive an administration fee, accrued daily and payable monthly, at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. From time to time, the Administrator may waive fees or reimburse the Company for expenses, either voluntarily or as required by certain state securities laws.

For the period March 16, 1993 (commencement of operations) through February 28, 1994 and the fiscal year ended February 28, 1995, the Administrator was paid administration fees (net of fee waivers) with respect to the Fund of \$2,840 and \$289,793, respectively. For the same periods, the Administrator waived administration fees with respect to the Fund in the amount of \$116,991 and \$121,169, respectively.

The Administrator will bear all expenses in connection with the performance of its services under its Basic Administrative Services Agreement for the Fund with the exception of fees charged by The Bank of New York for certain fund accounting services described below, which are borne by the Fund.

The Basic Administrative Services Agreement provides that the Administrator shall not be liable for any error of judgment or mistake of law or any loss suffered by the Fund in connection with the matters to which the agreement relates, except a loss resulting from willful misfeasance, bad faith or negligence in the performance of the Administrator's duties or from the reckless disregard by the Administrator of its obligations and duties thereunder.

Bank of America has received an option entitling it to purchase approximately 4% of the Administrator's authorized common stock on or before December 31, 1998.

#### Special Management Services Agreement

Bank of America and the Administrator provide services with respect to the Fund's Pacific Horizon Shares as described in the Prospectus pursuant to a Special Management Services Agreement. The agreement has been entered into by the Company pursuant to an exemptive order granted by the Securities and Exchange Commission, and in approving the agreement, the Board of Directors determined that there was a reasonable likelihood that it would be beneficial to Pacific Horizon Shares of the Fund. Under the exemptive order, the agreement may not be amended to increase materially the amount payable thereunder unless approved by a majority vote of the Disinterested Directors (as defined below) cast in person at a meeting called for the purpose of voting on the amendment. The Board of Directors must be provided with and must review, at least quarterly, a written report of all amounts expended pursuant to the agreement.

The Special Management Services Agreement will continue in effect

with respect to the Fund until October 31, 1995 and thereafter for successive periods of one year, provided such continuation is approved at least annually by the Company's Board of Directors or by the vote of a majority of the outstanding Pacific Horizon Shares of the Fund (as defined under "Miscellaneous-Shareholder Vote"), and by a majority of the directors who are not interested persons of the Company and who have no direct or indirect interest in the agreement (the "Disinterested Directors") by vote cast in person at a meeting called for such purpose. The agreement is terminable at any time with respect to the Fund by the Disinterested Directors, by vote of a majority of the outstanding Pacific Horizon Shares of the Fund, by Bank of America, or by the Administrator upon 60 days' notice to the other parties to the agreement.

For the services provided and expenses assumed pursuant to the Special Management Services Agreement, Bank of America and the Administrator are entitled to receive an aggregate fee at the annual rate of .32% of the average daily net asset value of the Fund's Pacific Horizon Shares. From time to time, Bank of America and the Administrator may waive the fees payable to them under the agreement. Bank of America and the Administrator bear all expenses in connection with the performance of their services under the Special Management Services Agreement.

For the period March 16, 1993 (commencement of operations) through February 28, 1994, and the fiscal year ended February 28, 1995 the Fund incurred expenses (before fee waivers) of \$386,941 and \$307,526, respectively, pursuant to the Special Management Services Agreement, of which \$0 was earned by Bank of America, \$3,320 was earned by affiliates of Bank of America, \$111 was earned by the Administrator and \$0 was earned by affiliates of the Administrator for the period ended February 28, 1994, and \$0 was earned by Bank of America, \$0 was earned by affiliates of Bank of America, \$0 was earned by the Administrator and \$0 was earned by affiliates of the Administrator for the fiscal year ended February 28, 1995. For the period March 16, 1993 through February 28, 1994 and the fiscal year ended February 28, 1995, Bank of America and its affiliates, the Administrator and other Service Organizations agreed to waive Special Management Services fees of \$383,510 and \$307,526, respectively.

The Special Management Services Agreement provides that Bank of America and the Administrator shall not be liable for any error of judgment or mistake of law or any loss suffered by the Fund in connection with the matters to which the agreement relates, except a loss resulting from willful misfeasance, bad faith or negligence in the performance of their duties or from the reckless disregard by them of their obligations and duties thereunder.

#### Fee Waivers and Expense Reimbursements

If total expenses borne by the Fund in any fiscal year exceed the expense limitations imposed by applicable state securities regulations, the Company may deduct from the payments to be made with respect to the Fund to Bank of America and the Administrator, respectively, or Bank of America and the Administrator each will bear, the amount of such excess to the extent required by such regulations. Such amount, if any, will be estimated and accrued daily and paid on a monthly basis. As of the date of this Statement of Additional Information, the most restrictive expense limitation that may be applicable to the Company limits aggregate annual expenses with respect to the Fund, including management and advisory fees but excluding interest, taxes, brokerage commissions, and certain other expenses, to 2-1/2% of the first \$30 million of

its average daily net assets, 2% of the next \$70 million, and 1-1/2% of its remaining average daily net assets. During the course of the Company's fiscal year, the Administrator and Bank of America may assume certain expenses and/or not receive payment of fees of the Fund, while retaining the ability to be reimbursed by the Fund for such amounts prior to the end of the fiscal year. This will have the effect of increasing yield to investors at the time such fees are not received or amounts are assumed and decreasing yield when such fees or amounts are reimbursed.

#### Distributor

The Distributor acts as the exclusive distributor of the shares of the Fund pursuant to a distribution agreement with the Company. Shares are sold on a continuous basis by the Distributor as agent, although the Distributor is not obliged to sell any particular amount of shares. No compensation is payable by the Fund to the Distributor for its distribution services. The distribution agreement shall continue in effect with respect to the Fund until October 31, 1995. Thereafter, if not terminated, the distribution agreement shall continue automatically for successive terms of one year, provided that such continuance is specifically approved at least annually (a) by a vote of a majority of those members of the Board of Directors of the Company who are not parties to the distribution agreement or "interested persons" of any such party, cast in person at a meeting called for the purpose of voting on such approval, and (b) by the Board of Directors of the Company or by vote of a "majority of the outstanding voting securities" of the Fund; provided, however, that the distribution agreement may be terminated by the Company at any time, without the payment of any penalty, by vote of a majority of the entire Board of Directors of the Company or by a vote of a "majority of the outstanding voting securities" of the Fund on 60 days' written notice to the Distributor, or by the Distributor at any time, without the payment of any penalty, on 90 days' written notice to the Company. The agreement will automatically and immediately terminate in the event of its "assignment."

#### Custodian and Transfer Agent

The Company has appointed The Bank of New York, 90 Washington Street, New York, New York 10286, as custodian, and DST Systems, Inc., 811 Main, Kansas City, Missouri 64105-2005, as transfer and dividend disbursing agent for the Fund. The Bank of New York also provides the Company with certain accounting services pursuant to a fund accounting services agreement. The Bank of New York has agreed to provide certain accounting, bookkeeping, pricing, and dividend and distribution calculation services with respect to the Company. The monthly fees charged by the bank under the fund accounting agreement are borne by the Fund (and other portfolios of the Company). The Company and The Bank of New York have appointed Bank of America to act as sub-custodian pursuant to a sub-custodian agreement. As sub-custodian of the Company's assets, Bank of America (i) maintains a separate account or accounts in the name of the Company, (ii) holds and disburses portfolio securities on account of the Company, (iii) makes receipts and disbursements of money on behalf of the Company, (iv) collects and receives all income and other payments and distributions on account of the Company's portfolio securities held by Bank of America, (v) responds to correspondence from security brokers and others relating to its duties, and (vi) makes periodic reports to the Company's Board of Directors concerning its duties thereunder. Under the sub-custodian agreement, the Company will reimburse Bank of America for its costs and expenses in providing services thereunder. For the

period March 16, 1993 (commencement of operations) through February 28, 1994 and the fiscal year ended February 28, 1995 Bank of America, in its capacity as sub-custodian, did not hold any of the Fund's assets and accordingly received no fees.

#### Additional Performance Information

The "yield" and "effective yield" of the Fund are calculated according to formulas prescribed by the Securities and Exchange Commission. The standardized seven-day yield for the Fund is computed by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account in the Fund having a balance of one share at the beginning of the period, dividing the net change in account value by the value of the account at the beginning of the base period to obtain the base period return, and multiplying the base period return by  $(365/7)$ . The net change in the value of an account in the Fund includes the value of additional shares purchased with dividends from the original share, and dividends declared on both the original share and any such additional shares, net of all fees, other than nonrecurring account or sales charges, that are charged to all shareholder accounts in proportion to the length of the base period and the Fund's average account size. The capital changes to be excluded from the calculation of the net change in account value are realized gains and losses from the sale of securities and unrealized appreciation and depreciation. The effective annualized yield for the Fund is computed by compounding the Fund's unannualized base period return (calculated as above) by adding 1 to the base period return, raising the sum to a power equal to 365 divided by 7, and subtracting 1 from the result. The fees which may be imposed by institutional investors directly on their customers for cash management services are not reflected in the Fund's calculations of yields.

The current yields for the Fund may be obtained by calling (800) 227-1545. Based on the foregoing calculations, for the seven-day period ended February 28, 1995, the annualized yield and effective yield (after fee waivers) of the Fund's Pacific Horizon Shares were 5.96% and 6.14%, respectively.

From time to time, the yield of the Fund may be quoted in and compared to other mutual funds with similar investment objectives in advertisements, shareholder reports or other communications to shareholders. The Fund may also include calculations in such communications that describe hypothetical investment results. (Such performance examples will be based on an express set of assumptions and are not indicative of the performance of the Fund.) Such calculations may from time to time include discussions or illustrations of the effects of compounding in advertisements. "Compounding" refers to the fact that, if dividends or other distributions on the Fund investment are reinvested by being paid in additional Fund shares, any future income of the Fund would increase the value of the Fund investment more quickly than if dividends or other distributions had been paid in cash. The Fund may also include discussions or illustrations of the potential investment goals of a prospective investor (including but not limited to tax and/or retirement planning), investment management techniques, policies or investment suitability of the Fund, economic conditions, legislative developments (including pending legislation), the effects of inflation and historical performance of various asset classes. From time to time advertisements or communications to shareholders may summarize the substance of information contained in shareholder reports (including the investment composition of the Fund), as well as the views of the investment adviser as to current market, economic, trade and interest

rate trends, legislative, regulatory and monetary developments, investment strategies and related matters believed to be of relevance to the Fund. The Fund may also include in advertisements charts, graphs or drawings which illustrate the potential risks and rewards of investment in various investment vehicles. In addition, advertisements or shareholder communications may include a discussion of certain attributes or benefits to be derived by an investment in the Fund. Such advertisements or communications may include symbols, headlines or other material which highlight or summarize the information discussed in more detail therein. With proper authorization, the Fund may reprint articles (or excerpts) written regarding the Fund and provide them to prospective shareholders. Performance information with respect to the Funds is generally available by calling (800) 227-1545.

In addition to the publications listed in the Fund's Prospectus, yield data as reported in the following publications may be used in comparing the yields of the Fund to those of other mutual funds with similar investment objectives: Business Week, Investor's Business Daily, Kiplinger, U.S. News, Financial World, USA Today, Morningstar, Mutual Fund Monitor and American Banker.

## GENERAL INFORMATION

### Description of Shares

The Company is an open-end management investment company organized as a Maryland corporation on October 27, 1982. The Company's Charter authorizes the Board of Directors to issue up to two hundred billion full and fractional shares of capital stock. The Board of Directors has authorized the issuance of twenty-three classes of common stock - Classes A through W Common Stock representing interests in twenty-three separate investment portfolios. Each share of capital stock has a par value of \$.001. This Statement of Additional Information describes the Pacific Horizon Shares of the Prime Value Fund.

Shares have no preemptive rights and only such conversion or exchange rights as the Board may grant in its discretion. When issued for payment as described in the Prospectus, the Fund's shares will be fully paid and non-assessable. For information concerning possible restrictions upon the transferability of the Fund's shares and redemption provisions with respect to such shares, see "Additional Purchase and Redemption Information" in this Statement of Additional Information.

The Fund's Horizon Shares and Horizon Service Shares differ from Pacific Horizon Shares in the following respects. Only Pacific Horizon Shares are subject to the Special Management Services fee described above, which is payable at the rate of .32% (on an annualized basis) of the average daily net asset value of the Pacific Horizon Shares that are outstanding from time to time. Only Horizon Service Shares bear the fees payable under the Shareholder Services Plan that has been adopted for Horizon Services Shares, which are payable at the rate of up to .25% (on an annualized basis) of the average daily net asset value of the Horizon Service Shares that are outstanding from time to time as described in the Prospectus for such shares. As a result, at any given time, the net yield on the Fund's Pacific Horizon Shares will be approximately .32% lower than the yield on the Fund's Horizon Shares and .07% lower than the yield on the Fund's Horizon Service Shares. Standardized yield quotations will



be computed separately for each series of shares.

Holders of the outstanding shares of the Fund will vote together in the aggregate and not by class on all matters, except that only Pacific Horizon Shares of the Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the Special Management Services Agreement and only Horizon Service Shares of the Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the expenses that are borne exclusively by such shares. Further, shareholders of the Fund, as well as those of any other investment portfolio now or hereafter offered by the Company, will vote together in the aggregate and not separately on a fund-by-fund basis, except as otherwise required by law or when permitted by the Board of Directors. Rule 18f-2 under the 1940 Act provides that any matter required to be submitted to the holders of the outstanding voting securities of an investment company such as the Company shall not be deemed to have been effectively acted upon unless approved by a majority of the outstanding shares of each fund affected by the matter. A fund is affected by a matter unless it is clear that the interests of each fund in the matter are substantially identical or that the matter does not affect any interest of the fund. Under the Rule, the approval of an investment advisory agreement or any change in a fundamental investment policy would be effectively acted upon with respect to a fund only if approved by a majority of the outstanding shares of such fund. However, the Rule also provides that the ratification of independent public accountants, the approval of principal underwriting contracts and the election of directors may be effectively acted upon by shareholders of the Company voting in the aggregate without regard to particular funds.

Notwithstanding any provision of Maryland law requiring a greater vote of the Company's common stock (or of the shares of a fund voting separately as a class) in connection with any corporate action, unless otherwise provided by law (for example, by Rule 18f-2 discussed above) or by the Company's Charter, the Company may take or authorize such action upon the favorable vote of the holders of more than 50% of the outstanding common stock of the Company voting without regard to class.

#### Reports

Shareholders will be sent unaudited semi-annual reports describing the Fund's investment operations, and annual financial statements together with a report of the independent accountants.

#### Counsel

Drinker Biddle & Reath (of which W. Bruce McConnel, III, Secretary of the Company, is a partner), Philadelphia National Bank Building, 1345 Chestnut Street, Philadelphia, Pennsylvania 19107, serve as counsel to the Company and will pass upon the legality of the shares offered hereby.

#### Independent Accountants

Price Waterhouse LLP, independent accountants, with offices at 1177 Avenue of the Americas, New York, New York 10036, has been selected as the independent accountants for the Fund for the fiscal year ending February 28, 1996.

As used in the Prospectus and this Statement of Additional Information, a "vote of a majority" of the outstanding shares of the Fund means, with respect to the approval of an investment advisory agreement, a distribution plan or a change in a fundamental investment policy, the affirmative vote of the lesser of (a) more than 50% of the outstanding shares of the Fund, or (b) 67% of the shares of the Fund present at a meeting at which more than 50% of the outstanding shares of the Fund are represented in person or by proxy.

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Treasury Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 98,230,626.530 shares (7.70%); Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 1,044,975,154.790 shares (82.00%); and Hellman & Freidman Capital Partners II, Limited Partnership, Attention: Georgia Lee, 1 Maritime Plaza, 12th Floor, San Francisco, CA 94111, 1,216,118,073.700 shares (095.42%).

At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Treasury Fund was as follows: Bank of America Trustee/Custodian for Investing in Horizon Treasury, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 398,540,438.170 shares (68.901%); Security Pacific State Trust Co., Agreement for Sec. PACWA Participants, Attn: Cash Sweep Funds (L. Goekjian), P.O. Box 91630, Pasadena, CA 91101, 94,279,024.120 shares (16.299%).

At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Treasury Fund were as follows: Bank of America FM&TS Operat CA, Attn: CTF Unit, 701 South Western Avenue, Glendale, CA 91201, 65,745,555.320 shares (23.658%); Bank of America Nevada Southern Comm. Bank, Attn: Dan Dykes, P.O. Box 98600, Las Vegas, NV 89193, 63,974,589.270 shares (23.020%). Security Pacific State Trust Co., Agreement for Sec. PACWA Participants, Attn: Cash Sweep Funds, P.O. Box 91630, Pasadena, CA 91101, 56,906,301.540 shares (20.477%); and Security Pacific Cash Management, c/o Bank of America - GPO M/C 5533, Attn: Liezel Barangan, 1850 Gateway Boulevard, Concord, CA 94520, 77,003,300 shares (27.709%). At June 15, 1995, the name, address and, share ownership of the entity which held of record more than 5% of the outstanding Horizon Service Shares of the Treasury Fund was as follows: Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services, Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 263,629,755.130 shares (65.51%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Prime Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 514,119,226.900 shares (38.76%); Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 392,983,248.780 shares (29.63%); and Southwest Securities Inc., Attn: Cashiering, 201 Elm Street, Suite 4300, Dallas, TX 75270, 169,018,910.270 shares (12.74%). At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Prime Fund were as follows: Bank of America Trustee/Custodian for Investing

Horizon Prime, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 385,058,852.030 shares (56.838%); and Bank of America NT&SA, Attn: Kay Warren/Dept. #5596, 1455 Market Street, San Francisco, CA 94103, 57,300,000.00 shares (9.934%). At June 15, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding Horizon Service Shares of the Prime Fund were as follows: Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services, Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 752,776,315.610 shares (70.26%).

At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Prime Fund were as follows: Bank of America NT&SA Financial Management and Trust Services, 701 S. Western Avenue, Glendale, CA 91201, 74,038,082.090 shares (9.835%); Capital Network Services, Attn: Donna Novell, One Bush Street, 11th Floor, San Francisco, CA 94104, 86,407,261.23 shares (11.478%); Security Pacific Cash Management, c/o Bank of America. GPO. M/C 5533 Attn: Liezel Barangan, 1850 Gateway Boulevard, M/C 5533, Concord, CA 94520, 379,755,600.000 shares (50.447%); Security Pacific State Trust Co., Agreement for SecPAC WA Participants, Attn: Cash Sweep Funds (L. Goekjian) P.O. Box 91630, Pasadena, CA 91101, 54,321,621.330 shares (7.216%); and Southwest Securities Inc., Attn: Mary Lisenber, 1201 Elm Street, Suite 4300, Dallas, TX 75270, 130,146,660.030 shares (17.289%).

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Tax-Exempt Money Fund were as follows: BA Investment Services, Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 12,233,845.190 shares (39.73%); Southwest Securities Inc., Attn: Cashiering, 1201 Elm Street, Suite 4300, Dallas, TX, 75270, 10,387,253.930 shares (33.73%); and Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 6,515,635.730 shares (21.16%).

At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Tax-Exempt Money Fund were as follows: Bank of America Custodian For Investing in Horizon Tax-Exempt Money Fund, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 129,582,555.65 shares (38.576%); Continental Bank National Association Custodian for the Benefit of Custodian Co. Attn: Mary Chester, 231 South LaSalle Street, 6Q, Chicago, IL 60697, 152,699,416.270 shares (45.458%); and Maine Midland Bank NA, Investment Services, 17th Floor, Attn: Christine Mincel, One Marine Midland Center, Buffalo, NY 14203, 21,684,672.980 shares (6.455%).

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Horizon Service Shares of the Tax-Exempt Money Fund were as follows: Furman C. Moseley and Susan R. Moseley Tenn. In Common, 1201 3rd Avenue, Box 7C, Seattle, WA 98101, 4,165,513.060 shares (9.91%); Omnibus A/C for the shareholder accounts maintained by Concord Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 22,398,544.590 shares (53.31%); and Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services Inc. Attn: First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 3,494,305.180 shares (8.31%). At June 16, 1995, the name, address and share ownership of the entities which

held beneficially more than 5% of the outstanding Horizon Service Shares of the Tax-Exempt Money Fund were as follows: BA Investment Services Inc., 555 California Street, 4th Floor Dept. #4337, San Francisco, CA 94104, 1,362,028.590 shares (5.260%); Bank of America FM&TS Oper. CA, Attn: CTF Unit, 701 South Western Avenue, Glendale, CA 91201, 2,293,907.40 shares (8.859%); and Southwest Securities, Inc., Attn: Mary Lisenber, 1201 Elm Street, Suite 430, Dallas, TX 75270, 21,021,580.530 shares (81.187%). At June 15, 1955, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Government Fund were as follows: Bank of America, NT&SA, The Private Bank, Attn: ACI Unit #8329, 701 S. Western Avenue, Glendale, CA 91201, 79,875,532.090 shares (22.71%); Bank of America State Trust Co., 299 N. Euclid Avenue., Pasadena, CA 91101, 64,756,966.280 shares (18.41%); and BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 170,940,404.650 shares (48.60%). At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Government Fund were as follows: Bank of America NT&SA Trustee/Custodian for Investing in Horizon Shares of the Government Fund, Attn: Cynthia Beauvais, 701 South Western Avenue., Glendale, CA 91201, 9,327,446.350 shares (5.028%); Bank of America State Trust, Attn: Rigo Barrett, 299 N. Euclid Avenue, Pasadena, CA 91101, 28,063,486.740 shares (15.129%); Capital Network Services, Attn: Donna Novell, One Bush Street, 11th Floor, San Francisco, CA 94104, 24,227,801.980 shares (13.061%); County of Orange, Matt Raabe, P.O. Box 4515, Santa Ana, CA 92702, 10,000,000.000 shares (5.391%); Cypress Insurance Co., Attn: Larry Tetzloff, 9290 W. Dodge Road, Omaha, NE 68124, 9,996,515.930 shares (5.389%); Harr & Co., c/o Bank of New York, Attn: Bimal Sana, Spec. Prec. Dept., One Wall Street, 5th Floor, New York, NY 10286, 14,000,000.000 shares (7.547%); Micron Electronics Inc., Attn: Debbie Meigand, 900 East Karcher Road, Nanpa, ID 83687, 16,080,510.14 shares (8.669%); and Silocin Magic Corp., Attn: Meng A. Lim, 20300 Stevens Creek Boulevard., Suite 400, Cupertino, CA 95014, 18,058,262.110 shares (9.735%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Service Shares of the Government Fund were as follows: Spacelabs Medical, Inc., Attn: Scott Bender, P.O. Box 97013, Redmond, WA 98073, 14,572,000.000 shares (5.70%); Good Health Plan of WA, Attn: Tsai Cheng, 1501 9th Avenue, Suite 500, Seattle, WA 98101, 16,584,866.580 shares (6.49%); Omnibus A/C for the Shareholder Accounts maintained by Concord. Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 68,555,257.020 shares (26.85%). At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the Horizon Service Shares of the Government Fund were as follows: Bank of America Nevada Southern Comm. Bank, Attn: Dan Dykes, P.O. Box 98600, Las Vegas, NV 89193-8600, 35,849,966.050 shares (52.294%); and Capital Network Services, Attn: Donna M. Howell, One Bush Street, 11th Floor, San Francisco, CA 94104-4425, 23,929,840.440 shares (34.906%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the Pacific Horizon Shares of the Treasury Only Fund were as follows: Bank of America NT&SA, the Private Bank, Attn: ACI Unit 48329, 701 South Western Avenue, Glendale, CA 91201, 48,516,900.490 shares (31.68%) Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 22,350,831.320 shares (14.59%); and BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 69,016,521.500 shares (45.06%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Service Shares of the Treasury Only Fund were as follows: National Home Mortgage Corp.,

Attn: Mortgage Banking Treasury Operations, 5565 Morehouse Drive, 3rd Floor, San Diego, CA 92121, 12,147,667,580 shares (9.42%); Comcare, Inc., 4001 N. 3rd Street, Suite 120, Phoenix, AZ 85012, 26,230,243.620 shares (20.34%); and Omnibus A/C For the Shareholder Accounts Maintained by Concord Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 21,883,084.450 shares (16.97%). At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Treasury Only Fund were as follows: BA Investment Service Inc., 555 California Street, 4th Floor Dept. #4337, San Francisco, CA 94104, 6,403,628.120 shares (28.679%); Bank of America NT&SA Trustee/Custodian for Investing in Horizon Service Shares of the Treasury Only Fund, Attn: Cynthia Beauvais, 701 South Western Avenue, Glendale, CA 91201, 3,501,414.020 shares (15.681%); Bank of America State Trust, Attn: Rigo Barrett, 299 N. Euclid Avenue, Pasadena, CA 91101, 5,420,893.150 shares (24.277%); Fair Isaac & Co., Attn: Christine Tam, 120 North Redwood, San Raphael, CA 94903-1996, 1,338,800.750 shares (5.996%); Foothill/Eastern Transportation Corridor Agency, Attn: Laura Barker, 201 East Sandpot, Suite 200, Santa Anna, CA 92707, 2,559,586.380 shares (11.463%); and Nexus, Attn: Kathleen Menace, P.O. Box 60637, Sunnyvale, CA 94088-0637, 2,525,153.380 shares (11.309%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Prime Value Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 16,383,467.170 shares (26.45%); and Bank of America State Trust Co., Attn: Leon Goekjian, P.O. Box 91630, Pasadena, CA 91101, 45,078,465.290 shares (72.79%). At June 16, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding Horizon Shares of the Prime Value Fund was as follows: Tice & Co., c/o M&T, Attn: Cash Management Clerk, 8th Floor, P.O. Box 1377, Buffalo, NY 14240, 453,078,561.590 shares (93.510%). At June 15, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding shares of the Pacific Horizon Shares of the California Tax-Exempt Money Market Fund was as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 204,443,886.590 shares (22.07%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Horizon Service Shares of the California Tax-Exempt Money Market Fund were as follows: Leo Zuckerman Trust, DTD 12-11-91, 4444 Viewridge Avenue, San Diego, CA 92123, 4,850,877.280 shares (5.35%); and Omnibus A/C for the Shareholder Accounts Maintained by Concord Financial Services Inc. Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 13,391,453.970 shares (14.77%). At June 16, 1995, the name, address and share ownership of the entity which held beneficially more than 5% of the outstanding shares of the Horizon Service Shares of the California Tax-Exempt Money Market Fund was as follows: BA Investment Services Inc., 555 California Street, 4th Floor, Dept. #4337, San Francisco, CA 94109, 13,792,509.310 shares (99.206%). At June 15, 1995, the name, address and shares ownership of the entities which held of record more than 5% of the outstanding shares of the Flexible Bond Fund were as follows: Peter F. Smith and Jacquelyn L. Smith, JTWROS, 1785 C. Blodgett Road, Mount Vernon, WA 98273, 13,973.917 shares (5.58%); and BA Investment Services, Inc., FBO 200724011, 185 Berry Street, 3rd Floor #2640, San Francisco, CA 94104, 22,436.531 shares (8.96%). At June 15, 1995 the name, address and share ownership of the entity which held of record more than 5% of the outstanding shares of the Asset Allocation Fund was as follows: Bank of America, Texas AATTEE. National-O'Neill Supplemental

Savings Plan, Attn: Mutual Funds (81-6-01005-0), P.O. Box 94627, Pasadena, CA 91109, 24,289,973 shares (5.07%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the National Municipal Bond Fund were as follows: BA Investment Services, Inc. FBO 405084421, 555 California Street, 4th Floor, #2640, San Francisco, CA 94104, 26,336.154 shares (8.31%); and BA Investment Services, Inc., FBO 405266591, 555 California Street, 4th Floor, #2640, San Francisco, CA 94104, 25,034.024 shares (7.90%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Corporate Bond Fund were as follows: Dean Witter Reynolds Inc., 5 World Trade Center, 4th Floor, Attn: 5th O Div., New York, NY 10048, 138,820.000 shares (6.93%); and Smith Barney Shearson, Inc., 333 W. 39th Street, 8th Floor, New York, NY 10001, 148,925.482 shares (7.43%).

At such dates, no other person was known by the Company to hold of record or beneficially more than 5% of the outstanding shares of any investment portfolio of the Company.

#### Financial Statements and Experts

The Annual Report for the Fund for the period ended February 28, 1995 (the "Annual Report"), accompanies this Statement of Additional Information. The Financial Statements and notes thereto in the Annual Report are incorporated in this Statement of Additional Information by reference and have been audited by Price Waterhouse LLP, whose report thereon also appears in the Annual Report and is also incorporated herein by reference. Such financial statements have been incorporated herein in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

#### APPENDIX A

##### Commercial Paper Ratings

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market. The following summarizes the rating categories used by Standard and Poor's for commercial paper:

"A-1" - Issue's degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted "A-1+."

"A-2" - Issue's capacity for timely payment is satisfactory. However, the relative degree of safety is not as high as for issues designated "A-1."

"A-3" - Issue has an adequate capacity for timely payment. It is, however, somewhat more vulnerable to the adverse effects of changes and circumstances than an obligation carrying a higher designation.

"B" - Issue has only a speculative capacity for timely payment.

"C" - Issue has a doubtful capacity for payment.

"D" - Issue is in payment default.

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of 9 months. The following summarizes the rating categories used by Moody's for commercial paper:

"Prime-1" - Issuer or related supporting institutions are considered to have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; and well established access to a range of financial markets and assured sources of alternate liquidity.

"Prime-2" - Issuer or related supporting institutions are considered to have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternative liquidity is maintained.

"Prime-3" - Issuer or related supporting institutions have an acceptable capacity for repayment of short-term promissory obligations. The effects of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and the requirement for relatively high financial leverage. Adequate alternate liquidity is maintained.

"Not Prime" - Issuer does not fall within any of the Prime rating categories.

The three rating categories of Duff & Phelps for investment grade commercial paper and short-term debt are "D-1," "D-2" and "D-3." Duff & Phelps employs three designations, "D-1+," "D-1" and "D-1-," within the highest rating category. The following summarizes the rating categories used by Duff & Phelps for commercial paper:

"D-1+" - Debt possesses highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below risk-free U.S. Treasury short-term obligations.

"D-1" - Debt possesses very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

"D-1-" - Debt possesses high certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk

factors are very small.

"D-2" - Debt possesses good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

"D-3" - Debt possesses satisfactory liquidity, and other protection factors qualify issue as investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

"D-4" - Debt possesses speculative investment characteristics. Liquidity is not sufficient to ensure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.

"D-5" - Issuer has failed to meet scheduled principal and/or interest payments.

Fitch short-term ratings apply to debt obligations that are payable on demand or have original maturities of up to three years. The following summarizes the rating categories used by Fitch for short-term obligations:

"F-1+" - Securities possess exceptionally strong credit quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

"F-1" - Securities possess very strong credit quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+."

"F-2" - Securities possess good credit quality. Issues assigned this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as the "F-1+" and "F-1" categories.

"F-3" - Securities possess fair credit quality. Issues assigned this rating have characteristics suggesting that the degree of assurance for timely payment is adequate; however, near-term adverse changes could cause these securities to be rated below investment grade.

"F-S" - Securities possess weak credit quality. Issues assigned this rating have characteristics suggesting a minimal degree of assurance for timely payment and are vulnerable to near-term adverse changes in financial and economic conditions.

"D" - Securities are in actual or imminent payment default.

Fitch may also use the symbol "LOC" with its short-term ratings to indicate that the rating is based upon a letter of credit issued by a commercial bank.

Thomson BankWatch short-term ratings assess the likelihood of an untimely or incomplete payment of principal or interest of unsubordinated



instruments having a maturity of one year or less which is issued by United States commercial banks, thrifts and non-bank banks; non-United States banks; and broker-dealers. The following summarizes the ratings used by Thomson BankWatch:

"TBW-1" - This designation represents Thomson BankWatch's highest rating category and indicates a very high degree of likelihood that principal and interest will be paid on a timely basis.

"TBW-2" - This designation indicates that while the degree of safety regarding timely payment of principal and interest is strong, the relative degree of safety is not as high as for issues rated "TBW-1."

"TBW-3" - This designation represents the lowest investment grade category and indicates that while the debt is more susceptible to adverse developments (both internal and external) than obligations with higher ratings, capacity to service principal and interest in a timely fashion is considered adequate.

"TBW-4" - This designation indicates that the debt is regarded as non-investment grade and therefore speculative.

IBCA assesses the investment quality of unsecured debt with an original maturity of less than one year which is issued by bank holding companies and their principal bank subsidiaries. The following summarizes the rating categories used by IBCA for short-term debt ratings:

"A1+" - Obligations supported by the highest capacity for timely repayment.

"A1" - Obligations are supported by the highest capacity for timely repayment.

"A2" - Obligations are supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic or financial conditions.

"A3" - Obligations are supported by a satisfactory capacity for timely repayment. Such capacity is more susceptible to adverse changes in business, economic or financial conditions than for obligations in higher categories.

"B" - Obligations for which the capacity for timely repayment is susceptible to adverse changes in business, economic or financial conditions.

"C" - Obligations for which there is an inadequate capacity to ensure timely repayment.

"D" - Obligations which have a high risk of default or which are currently in default.

Corporate and Municipal Long-Term Debt Ratings

The following summarizes the ratings used by Standard & Poor's for corporate and municipal debt:

"AAA" - This designation represents the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.

"AA" - Debt is considered to have a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.

"A" - Debt is considered to have a strong capacity to pay interest and repay principal although such issues are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

"BBB" - Debt is regarded as having an adequate capacity to pay interest and repay principal. Whereas such issues normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher-rated categories.

"BB," "B," "CCC," "CC" and "C" - Debt is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "C" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

"BB" - Debt has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The "BB" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "BBB-" rating.

"B" - Debt has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The "B" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "BB" or "BB-" rating.

"CCC" - Debt has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The "CCC" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "B" or "B-" rating.

"CC" - This rating is typically applied to debt subordinated to senior debt that is assigned an actual or implied "CCC" rating.

"C" - This rating is typically applied to debt subordinated to

senior debt which is assigned an actual or implied "CCC-" debt rating. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

"CI" - This rating is reserved for income bonds on which no interest is being paid.

"D" - Debt is in payment default. This rating is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S & P believes such payments will be made during such grace period. "D" rating is also used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

PLUS (+) OR MINUS (-) - The ratings from "AA" through "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

"r" - This rating is attached to highlight derivative, hybrid, and certain other obligations that S & P believes may experience high volatility or high variability in expected returns due to non-credit risks. Examples of such obligations are: securities whose principal or interest return is indexed to equities, commodities, or currencies; certain swaps and options; and interest only and principal only mortgage securities.

The following summarizes the ratings used by Moody's for corporate and municipal long-term debt:

"Aaa" - Bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

"Aa" - Bonds are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in "Aaa" securities.

"A" - Bonds possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

"Baa" - Bonds considered medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

"Ba," "B," "Caa," "Ca," and "C" - Bonds that possess one of these

ratings provide questionable protection of interest and principal ("Ba" indicates some speculative elements; "B" indicates a general lack of characteristics of desirable investment; "Caa" represents a poor standing; "Ca" represents obligations which are speculative in a high degree; and "C" represents the lowest rated class of bonds). "Caa," "Ca" and "C" bonds may be in default.

Con. (---) - Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Moody's applies numerical modifiers 1, 2 and 3 in each generic classification from "Aa" to "B" in its bond rating system. The modifier 1 indicates that the issuer ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issuer ranks at the lower end of its generic rating category.

The following summarizes the long-term debt ratings used by Duff & Phelps for corporate and municipal long-term debt:

"AAA" - Debt is considered to be of the highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.

"AA" - Debt is considered of high credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

"A" - Debt possesses protection factors which are average but adequate. However, risk factors are more variable and greater in periods of economic stress.

"BBB" - Debt possesses below average protection factors but such protection factors are still considered sufficient for prudent investment. Considerable variability in risk is present during economic cycles.

"BB," "B," "CCC," "DD," and "DP" - Debt that possesses one of these ratings is considered to be below investment grade. Although below investment grade, debt rated "BB" is deemed likely to meet obligations when due. Debt rated "B" possesses the risk that obligations will not be met when due. Debt rated "CCC" is well below investment grade and has considerable uncertainty as to timely payment of principal, interest or preferred dividends. Debt rated "DD" is a defaulted debt obligation, and the rating "DP" represents preferred stock with dividend arrearages.

To provide more detailed indications of credit quality, the "AA," "A," "BBB," "BB" and "B" ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within these major categories.

The following summarizes the highest four ratings used by Fitch for corporate and municipal bonds:

"AAA" - Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

"AA" - Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA." Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+."

"A" - Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

"BBB" - Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have an adverse impact on these bonds, and therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

"BB," "B," "CCC," "CC," "C," "DDD," "DD," and "D" - Bonds that possess one of these ratings are considered by Fitch to be speculative investments. The ratings "BB" to "C" represent Fitch's assessment of the likelihood of timely payment of principal and interest in accordance with the terms of obligation for bond issues not in default. For defaulted bonds, the rating "DDD" to "D" is an assessment of the ultimate recovery value through reorganization or liquidation.

To provide more detailed indications of credit quality, the Fitch ratings from and including "AA" to "C" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within these major rating categories.

IBCA assesses the investment quality of unsecured debt with an original maturity of more than one year which is issued by bank holding companies and their principal bank subsidiaries. The following summarizes the rating categories used by IBCA for long-term debt ratings:

"AAA" - Obligations for which there is the lowest expectation of investment risk. Capacity for timely repayment of principal and interest is substantial such that adverse changes in business, economic or financial conditions are unlikely to increase investment risk substantially.

"AA" - Obligations for which there is a very low expectation of investment risk. Capacity for timely repayment of principal and interest is substantial. Adverse changes in business, economic or financial conditions may

increase investment risk albeit not very significantly.

"A" - Obligations for which there is a low expectation of investment risk. Capacity for timely repayment of principal and interest is strong, although adverse changes in business, economic or financial conditions may lead to increased investment risk.

"BBB" - Obligations for which there is currently a low expectation of investment risk. Capacity for timely repayment of principal and interest is adequate, although adverse changes in business, economic or financial conditions are more likely to lead to increased investment risk than for obligations in higher categories.

"BB," "B," "CCC," "CC," and "C" - Obligations are assigned one of these ratings where it is considered that speculative characteristics are present. "BB" represents the lowest degree of speculation and indicates a possibility of investment risk developing. "C" represents the highest degree of speculation and indicates that the obligations are currently in default.

IBCA may append a rating of plus (+) or minus (-) to a rating to denote relative status within major rating categories.

Thomson BankWatch assesses the likelihood of an untimely repayment of principal or interest over the term to maturity of long term debt and preferred stock which are issued by United States commercial banks, thrifts and non-bank banks; non-United States banks; and broker-dealers. The following summarizes the rating categories used by Thomson BankWatch for long-term debt ratings:

"AAA" - This designation represents the highest category assigned by Thomson BankWatch to long-term debt and indicates that the ability to repay principal and interest on a timely basis is extremely high.

"AA" - This designation indicates a very strong ability to repay principal and interest on a timely basis with limited incremental risk compared to issues rated in the highest category.

"A" - This designation indicates that the ability to repay principal and interest is strong. Issues rated "A" could be more vulnerable to adverse developments (both internal and external) than obligations with higher ratings.

"BBB" - This designation represents Thomson BankWatch's lowest investment grade category and indicates an acceptable capacity to repay principal and interest. Issues rated "BBB" are, however, more vulnerable to adverse developments (both internal and external) than obligations with higher ratings.

"BB," "B," "CCC," and "CC," - These designations are assigned by Thomson BankWatch to non-investment grade long-term debt. Such issues are regarded as having speculative characteristics regarding the likelihood of timely payment of principal and interest. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation.

"D" - This designation indicates that the long-term debt is in default.

PLUS (+) OR MINUS (-) - The ratings from "AAA" through "CC" may include a plus or minus sign designation which indicates where within the respective category the issue is placed.

#### Municipal Note Ratings

A Standard and Poor's rating reflects the liquidity concerns and market access risks unique to notes due in three years or less. The following summarizes the ratings used by Standard & Poor's Ratings Group for municipal notes:

"SP-1" - The issuers of these municipal notes exhibit very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given a plus (+) designation.

"SP-2" - The issuers of these municipal notes exhibit satisfactory capacity to pay principal and interest.

"SP-3" - The issuers of these municipal notes exhibit speculative capacity to pay principal and interest.

Moody's ratings for state and municipal notes and other short-term loans are designated Moody's Investment Grade ("MIG") and variable rate demand obligations are designated Variable Moody's Investment Grade ("VMIG"). Such ratings recognize the differences between short-term credit risk and long-term risk. The following summarizes the ratings by Moody's Investors Service, Inc. for short-term notes:

"MIG-1"/"VMIG-1" - Loans bearing this designation are of the best quality, enjoying strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

"MIG-2"/"VMIG-2" - Loans bearing this designation are of high quality, with margins of protection ample although not so large as in the preceding group.

"MIG-3"/"VMIG-3" - Loans bearing this designation are of favorable quality, with all security elements accounted for but lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

"MIG-4"/"VMIG-4" - Loans bearing this designation are of adequate quality, carrying specific risk but having protection commonly regarded as required of an investment security and not distinctly or predominantly speculative.

"SG" - Loans bearing this designation are of speculative quality and lack margins of protection.

Fitch and Duff & Phelps use the short-term ratings described under

Commercial Paper Ratings for municipal notes.



PACIFIC HORIZON FUNDS, INC.

Horizon Shares and  
Horizon Service Shares  
of the  
Prime Fund, Treasury Fund, Government Fund,  
Treasury Only Fund, Tax-Exempt Money Fund,  
California Tax-Exempt Money Market Fund  
and Prime Value Fund

July 1, 1995

Statement Of Additional Information

TABLE OF CONTENTS

	PAGE
The Company	3
Investment Objectives and Policies	3
Purchase and Redemption of Shares	43
Management of the Funds	46
Taxes	64
Yield Information	69
General Information	72
Appendix A	A-1

- - - - -

This Statement of Additional Information applies to the Horizon Shares and Horizon Service Shares of the Prime Fund, Treasury Fund, Government Fund, Treasury Only Fund, Tax-Exempt Money Fund and Prime Value Fund and the Horizon Service Shares of the California Tax-Exempt Money Market Fund (the "Funds") of Pacific Horizon Funds, Inc. (the "Company"). This Statement of Additional Information is meant to be read in conjunction with the prospectuses dated July 1, 1995 with respect to Horizon Shares and Horizon Service Shares of the Prime, Treasury, Government, Treasury Only, Tax-Exempt Money and Prime Value Funds, and the Horizon Service Shares of the California Tax-Exempt Money Market Fund, as the same may from time to time be revised (individually, a "Prospectus" and collectively, the "Prospectuses"), and is incorporated by reference in its entirety into each such Prospectus. No Horizon Shares are offered in the California Tax-Exempt Money Market Fund. Because this Statement of Additional Information is not itself a Prospectus, no investment in shares of any Fund should be made solely upon the information contained herein. Copies of the Prospectuses relating to the Company's Horizon and Horizon Service Shares may be obtained by calling Concord Financial Group, Inc. at (800) 426-3863. Capitalized terms used but not defined herein have the same meanings as in the Prospectuses.

THE COMPANY

The Company was organized on October 27, 1982 as a Maryland corporation and commenced operations on March 30, 1984. On January 19, 1990 the Prime Fund and Treasury Fund of The Horizon Funds, a Massachusetts business trust (sometimes called the "Predecessor Prime Fund" and "Predecessor Treasury Fund," respectively), were combined with the Money Market Portfolio and Government Money Market Portfolio, respectively, of the Company; the Company changed the names of its resulting portfolios to "Prime Fund" and "Treasury

Fund"; and the Company began offering Horizon Shares and Horizon Service Shares in such Funds. On January 19, 1990 the Tax-Exempt Money Fund of The Horizon Funds (the "Predecessor Tax-Exempt Fund") was reorganized as a new portfolio of the Company. Each of these three Predecessor Funds originally commenced operations on July 10, 1987. The California Tax-Exempt Money Market Fund commenced operations on December 6, 1989 by offering a single series of shares known as Pacific Horizon Shares and began offering Horizon Service Shares on March 1, 1993. The Government Fund and Treasury Only Fund commenced operations on June 4, 1990 as separate investment portfolios (the "Predecessor Government Funds" and "Predecessor Treasury Only Funds," respectively) of First Cash Funds of America and First Funds of America, which were organized as Massachusetts business trusts. On March 1, 1993, the Predecessor Government Funds and Predecessor Treasury Only Funds were reorganized as new portfolios of the Company. Prior to this reorganization, these Predecessor Funds offered and sold shares of beneficial interest that were similar to the Company's Horizon Service and Pacific Horizon Shares. The Prime Value Fund commenced operations on March 16, 1993 by offering a single series of shares known as Pacific Horizon Shares and began offering Horizon Shares on May 16, 1994.

The Company offers other classes and series of shares, including Pacific Horizon Shares, in the aforementioned Funds and in other investment portfolios which are described in separate Prospectuses and Statements of Additional Information. For information concerning these other shares contact the Distributor at the telephone number stated on the cover page of this Statement of Additional Information.

#### INVESTMENT OBJECTIVES AND POLICIES

The Prospectus for each Fund describes the investment objective of the Fund to which it applies. The following information supplements the descriptions of the investment objective and policies in the Prospectuses for the Funds.

#### Portfolio Transactions

Subject to the general control of the Company's Board of Directors, Bank of America National Trust and Savings Association ("Bank of America") is responsible for, makes decisions with respect to and places orders for all purchases and sales of portfolio securities for each Fund. Securities purchased and sold by each Fund are generally traded in the over-the-counter market on a net basis (i.e., without commission) through dealers, or otherwise involve transactions directly with the issuer of an instrument. During their last three fiscal periods, the Prime Fund, Treasury Fund, Government Fund, Treasury Only Fund, Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund did not pay any brokerage commissions. In addition, during the period March 16, 1993 (commencement of operations) through February 28, 1994 and the fiscal year ended February 28, 1995, the Prime Value Fund did not pay any brokerage commissions. The cost of securities purchased by the Funds from underwriters generally includes an underwriting commission or concession, and the prices at which securities are purchased from and sold to dealers include a dealer's mark-up or mark-down.

In executing portfolio transactions and selecting brokers or dealers, it is the Company's policy to seek the best overall terms available. The investment advisory agreement between the Company and Bank of America provides that, in assessing the best overall terms available for any transaction, Bank of America shall consider factors it deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer, and the reasonableness of the commission, if any, for the specific transaction and on a continuing basis. In addition, the investment advisory agreement authorizes Bank of America, subject to the approval of the Company's Board of Directors, to cause the Company to pay a broker-dealer which furnishes brokerage and research services a higher commission than that which might be charged by another broker-dealer for effecting the same transaction, provided that such commission is deemed reasonable in terms of either that particular transaction or the overall responsibilities of Bank of America to the particular Fund and the Company. Brokerage and research services may include: (1) advice as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or purchasers or sellers of securities, and (2) analyses and reports concerning industries, securities, economic factors and

trends, portfolio strategy and the performance of accounts.

The Directors will periodically review the commissions paid by the Company to consider whether the commissions, if any, paid over representative periods of time appear to be reasonable in relation to the benefits inuring to the Company. It is possible that certain of the supplementary research or other services received will primarily benefit one or more other investment companies or other accounts for which investment discretion is exercised. Conversely, the Company or any given Fund may be the primary beneficiary of the research or services received as a result of portfolio transactions effected for such other accounts or investment companies.

Brokerage or research services so received are in addition to and not in lieu of services required to be performed by Bank of America and do not reduce the advisory fee payable to Bank of America by the Company. Such services may be useful to Bank of America in serving both the Company and other clients and, conversely, supplemental information obtained by the placement of business of other clients may be useful to Bank of America in carrying out its obligations to the Company. The Company will not acquire certificates of deposit or other securities issued by Bank of America or its affiliates, and will give no preference to certificates of deposit or other securities issued by Shareholder Organizations. In addition, portfolio securities in general will be purchased from and sold to Bank of America, Concord Financial Group, Inc. (the "Distributor") and their affiliates acting as principal underwriter, syndicate member, market-maker, dealer, broker or in any other similar capacity, provided such purchase, sale or dealing is permitted under the investment Company Act of 1940 and the rules thereunder.

A Fund's annual portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the year by the monthly average value of the Fund's portfolio securities. The calculation excludes all securities the maturities of which at the time of acquisition were thirteen months or less. There is not expected to be any portfolio turnover for the Funds for regulatory reporting purposes.

A Fund may participate, if and when practicable, in bidding for the purchase of securities directly from an issuer in order to take advantage of the lower purchase price available to members of a bidding group. Any such Fund will engage in this practice only when Bank of America, in its sole discretion, subject to guidelines adopted by the Board of Directors, believes such practice to be in the Fund's interest.

Subsequent to its purchase by a Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. The Board of Directors or Bank of America, pursuant to guidelines established by the Board, will promptly consider such an event in determining whether the Fund involved should continue to hold the obligation, but will only continue to hold the obligation if retention is in accordance with the interests of the Fund and applicable regulations of the Securities and Exchange Commission. In addition, it is possible that unregistered securities purchased by a Fund in reliance upon Rule 144A under the Securities Act of 1933 could have the effect of increasing the level of the Fund's illiquidity to the extent that qualified institutional buyers become, for a period, uninterested in purchasing these securities.

To the extent permitted by law, Bank of America may aggregate the securities to be sold or purchased for a Fund with those to be sold or purchased for other investment companies or common trust funds in order to obtain best execution.

The Company is required to identify any securities of its regular brokers or dealers (as defined in Rule 10b-1 under the Investment Company Act of 1940) or their parents held by the Company as of the close of its most recent fiscal year. As of February 28, 1995: (a) the Treasury Fund held the following securities, Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$95,000,000; Repurchase Agreement with Merrill Lynch Government Securities, Inc. in the principal amount of \$95,000,000; (b) the Prime Fund held the following securities, Merrill Lynch & Co., Inc., commercial paper in the principal amount of \$100,000,000; Goldman, Sachs Group L.P., Daily Variable Rate Master Note in the principal amount of \$120,000,000; Morgan Stanley Group, Inc., Daily Variable Rate Master Note in the principal amount of \$120,000,000; Bear Stearns Co., Inc., Series B, Monthly Variable Rate Note in the principal amount

of \$100,000,000; Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$120,000,000; (c) the Government Fund held the following securities, Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$40,000,000; Repurchase Agreement with Merrill Lynch Government Securities, Inc. in the principal amount of \$40,000,000; and (d) the Prime Value Fund held the following securities, Merrill Lynch & Co., Inc., commercial paper in the principal amount of \$7,000,000; Goldman, Sachs Group L.P., Daily Variable Rate Master Note in the principal amount of \$7,000,000; Repurchase Agreement with Dean Witter Reynolds, Inc. in the principal amount of \$8,000,000; Repurchase Agreement with Goldman, Sachs & Co. in the principal amount of \$8,000,000. Merrill Lynch & Co., Inc., Goldman, Sachs & Co., Bear Stearns Co., Inc., Morgan Stanley & Co. Incorporated, Shearson Lehman Brothers, Inc., Dean Witter Reynolds, Inc. and Paine Webber are considered to be regular brokers and dealers of the Company.

#### Portfolio Instruments

Certificates of Deposit, Bankers' Acceptances, Commercial Paper and Short-Term Notes. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specific return. Bankers' acceptances are negotiable deposits or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are "accepted" by a bank (meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument at maturity). Certificates of deposit and bankers' acceptances acquired by a Fund will be dollar-denominated obligations of domestic or foreign banks having total assets at the time of purchase (including assets of both domestic and foreign branches) in excess of \$2.5 billion (\$1 billion in the case of the Prime Value Fund). Commercial paper consists of unsecured promissory notes issued by corporations. Short-term notes acquired by a Fund may be issued by commercial or investment banking firms, financing companies or industrial or manufacturing concerns. Commercial paper and short-term notes, except for variable and floating rate instruments, will normally have maturities of nine months or less and fixed rates of return, although such instruments may have maturities of up to thirteen months. Commercial paper and short-term notes will consist of issues which, with respect to the Prime, Treasury, Tax-Exempt Money and Prime Value Funds are "First Tier Securities" as defined by the Securities and Exchange Commission and, with respect to the California Tax-Exempt Money Market Fund are "Eligible Securities" as defined by the Securities and Exchange Commission. During temporary defensive periods or if in the investment adviser's opinion suitable First Tier Securities are not available for investment, the Tax-Exempt Money Fund may also acquire "Eligible Securities" as defined by the Securities and Exchange Commission. First Tier Securities consist of instruments that are either rated at the time of purchase in the top rating category by one or more unaffiliated nationally recognized statistical rating organizations ("NRSROs") or issued by issuers with such ratings. Eligible Securities consist of instruments that are either rated at the time of purchase in the top two rating categories by one or more unaffiliated NRSROs or issued by issuers with such ratings. See the Appendix to this Statement of Additional Information for a description of the applicable NRSRO ratings. Unrated instruments (including instruments with long-term but no short-term ratings) purchased by a Fund will be of comparable quality as determined by Bank of America pursuant to guidelines approved by the Board of Directors and Bank of America.

A Fund holding Euro CDs, Yankee CDs, Yankee BAs, commercial paper or other obligations of foreign issuers may be subject to investment risks that are different in some respects from those incurred by a Fund which invests only in obligations of domestic issuers. Such risks include future political and economic developments, the possible imposition of withholding taxes by the particular country in which the issuer is located on interest income payable on the securities, the possible seizure or nationalization of foreign deposits, the possible establishment of exchange controls or the adoption of other foreign governmental restrictions which might adversely affect the payment of principal and interest on these securities.

Domestic banks and foreign banks are subject to different governmental regulations with respect to the amount and types of loans which may be made and interest rates which may be charged. In addition, the profitability of the banking industry is dependent largely upon the availability and cost of funds for the purpose of financing lending operations under prevailing money market conditions. General economic conditions as well as exposure to credit losses arising from possible financial difficulties of borrowers play an

important part in the operations of the banking industry.

As a result of federal and state laws and regulations, domestic banks are, among other things, required to maintain specified levels of reserves, limited in the amount which they can loan to a single borrower, and subject to other regulations designed to promote financial soundness. However, such laws and regulations do not necessarily apply to the Euro CDs, Yankee CDs, Yankee BAs and other foreign bank obligations that a Fund may acquire.

U.S. Government Obligations. Obligations of the U.S. Government and its agencies and instrumentalities include Treasury bills, certificates of indebtedness, notes and bonds, Treasury strips, and issues of such entities as the Federal Home Loan Banks, Federal Land Banks, Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association, General Services Administration, Student Loan Marketing Association, Central Bank for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Maritime Administration, Resolution Funding Corporation, Tennessee Valley Authority and Federal National Mortgage Association. The Prime, Treasury, Tax-Exempt Money and California Tax-Exempt Money Market Funds will not acquire obligations issued by the International Bank for Reconstruction and Development, the Asian Development Bank or the Inter-American Development Bank; however, the Government, Treasury Only and Prime Value Funds may acquire such obligations in accordance with their investment policies.

Government National Mortgage Association ("GNMA") certificates are U.S. Government agency mortgage-backed securities representing part ownership of a pool of mortgage loans. These loans, issued by lenders such as mortgage bankers, commercial banks and savings and loan associations, are either insured by the Federal Housing Administration or guaranteed by the Veterans Administration. A "pool" or group of such mortgages is assembled and, after being approved by GNMA, is offered to investors through securities dealers. Once approved by GNMA, the timely payment of interest and principal on each mortgage is guaranteed by GNMA and backed by the full faith and credit of the U.S. Government. GNMA certificates differ from bonds in that principal is paid back monthly by the borrower over the term of the loan rather than returned in a lump sum at maturity. GNMA certificates are called "pass-through" securities because both interest and principal payments (including prepayments) are passed through to the holder of the certificate. In addition to GNMA certificates, mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") and by the Federal Home Loan Mortgage Corporation ("FHLMC") may also be acquired. Securities issued and guaranteed by FNMA and FHLMC are not backed by the full faith and credit of the United States. If either fixed or variable rate pass-through securities issued by the U.S. Government or its agencies or instrumentalities are developed in the future, the Prime, Government, Tax-Exempt Money, California Tax-Exempt Money Market and Prime Value Funds reserve the right to invest in them, after making appropriate disclosure to investors. Certain securities issued by all governmental agencies may be prepaid. Prepayment of mortgages underlying most mortgage-backed securities may reduce their current yield and total return. During periods of declining interest rates, such prepayments can be expected to accelerate and the Funds would be required to reinvest the proceeds at the lower interest rates then available.

Variable and Floating Rate Instruments. The Funds may acquire variable and floating rate instruments as described in their Prospectuses. Variable and floating rate instruments are frequently not rated by credit rating agencies; however, unrated variable and floating rate instruments purchased by a Fund will be determined by the investment adviser under guidelines established by the Company's Board of Directors to be of comparable quality at the time of purchase to rated instruments eligible for purchase by such Fund. In making such determinations, the investment adviser will consider the earning power, cash flows and other liquidity ratios of the issuers of such instruments (such issuers include financial, merchandising, bank holding and other companies) and will continuously monitor their financial condition. There may not be an active secondary market with respect to a particular variable or floating rate instrument purchased by a Fund. The absence of such an active secondary market could make it difficult for a Fund to dispose of the variable or floating rate instrument involved. In the event the issuer of the instrument defaulted on its payment obligations, the Fund involved could, for this or other reasons, suffer a loss to the extent of the default. Variable and floating rate instruments may be secured by bank letters of credit and may have maturities of more than thirteen months. In determining a Fund's average weighted maturity and whether

a variable or floating rate instrument has a remaining maturity of thirteen months or less, each variable rate instrument having a demand feature that entitles the Fund to receive the principal amount thereof at any time, or at specified intervals not exceeding thirteen months, in each case on not more than thirty days' notice, shall be deemed by the Company to have a maturity equal to the longer of the period remaining until its next interest rate adjustment or the period remaining until the principal amount can be recovered through demand; each variable rate instrument not having such a demand feature but having a stated maturity of thirteen months or less or issued or guaranteed by the U.S. Government or its agencies will be deemed to have a maturity equal to the period remaining until the next interest rate adjustment; each floating rate instrument having a demand feature that entitles the Fund to receive the principal amount thereof at any time, or at specified intervals not exceeding thirteen months, in each case on not more than thirty days' notice, shall be deemed to have a maturity equal to the period of time remaining until the principal amount owed can be recovered through demand. Variable and floating rate instruments which are not payable upon seven days' notice and which do not have an active trading market are considered illiquid securities.

Ratings and Issuer's Obligations. The ratings of Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, Division of McGraw Hill ("S&P"), Duff & Phelps Credit Rating Co. ("D&P"), Fitch Investors Service, Inc. ("Fitch"), Thomson Bankwatch, Inc. ("Thomson") and IBCA Limited and IBCA Inc. ("IBCA") represent their opinions as to the quality of debt securities. However, ratings are general and are not absolute standards of quality, and debt securities with the same maturity, interest rate and rating may have different yields while debt securities of the same maturity and interest rate with different ratings may have the same yield.

An issuer's obligations under its debt securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code and laws which may be enacted by federal or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or, in the case of governmental entities, upon the ability of such entities to levy taxes. The power or ability of an issuer to meet its obligations for the payment of interest on, and principal of, its debt securities may be materially adversely affected by litigation or other conditions.

Municipal Securities. Substantially all of the assets of the Tax-Exempt Money Fund and primarily all of the assets of the California Tax-Exempt Money Market Fund are invested in "Municipal Securities" (securities issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, authorities, agencies and instrumentalities, the interest on which is exempt from regular Federal income tax in the opinion of bond counselor to the issuer). The Tax-Exempt Money Fund may concentrate more than 25% of its assets in California Municipal Securities and the California Tax-Exempt Money Market Fund intends that under normal market conditions at least 80% of its net assets will be invested in California Municipal Securities. Although the Prime and Prime Value Funds are also authorized to invest in Municipal Securities under certain circumstances, no more than 5% of the value of such Funds' respective net assets will be so invested at any one time. (The purchase of Municipal Securities by the Prime and Prime Value Funds may be advantageous when, as a result of prevailing economic, regulatory or other circumstances, the yield on such securities, on a pre-tax basis, is comparable to that of other short-term money market instruments that these Funds may purchase. Dividends paid by the Prime and Prime Value Funds that are derived from interest on Municipal Securities would be taxable to a Fund's shareholders for federal income tax purposes.)

Municipal Securities include debt obligations issued by governmental entities to obtain funds for various public purposes, including the construction of a wide range of public facilities, the refunding of outstanding obligations, the payment of general operating expenses and the extension of loans to public institutions and facilities. In addition certain types of private activity bonds are issued by or on behalf of public authorities to finance various privately-operated facilities. Municipal Securities also include short-term tax anticipation notes, bond anticipation notes, revenue anticipation notes and other forms of short-term loan obligations. Such notes are issued with a short-term maturity in anticipation of the receipt of tax funds, the proceeds of bond placements or other revenues.

There are variations in the quality of Municipal Securities between classifications (such as general obligation, revenue and moral obligation issues) and within a particular classification, and the yields on Municipal Securities depend upon a variety of factors, including general money market conditions, the financial condition of the issuer, general conditions of the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. It should also be noted, with respect to all Municipal Securities issued after August 15, 1986 (August 31, 1986 in the case of certain bonds), that the issuer must comply with certain rules formerly applicable only to "industrial development bonds" which, if the issuer fails to observe them, could cause interest on the Municipal Securities to become taxable retroactive to the date of issue.

The payment of principal and interest on most Municipal Securities purchased by the Funds will depend upon the ability of the issuers to meet their obligations. The District of Columbia, each state, each of their political subdivisions, agencies, instrumentalities and authorities and each multi-state agency of which a state is a member is a separate "issuer" as that term is used in this Statement of Additional Information and the Prospectuses. The non-governmental user of facilities financed by private activity bonds is also considered to be an "issuer."

From time to time proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on Municipal Securities. For example, pursuant to federal tax legislation passed in 1986, interest on certain private activity bonds must be included in an investor's federal alternative minimum taxable income, and corporate investors must include all tax-exempt interest in their federal alternative minimum taxable income. (See the relevant Funds' Prospectuses under "Taxes.") The Funds cannot predict what legislation, if any, may be proposed in Congress or in the California legislature in the future as regards the federal and California state personal income tax status of interest on Municipal Securities in general, or California Municipal Securities in particular, or which proposals, if any, might be enacted. Such proposals, if enacted, might materially adversely affect the availability of Municipal Securities (and California Municipal Securities) for investment by the Tax-Exempt Money Fund and the California Tax-Exempt Money Market Fund and the liquidity and value of such Funds' portfolios. In such an event the Board of Directors would reevaluate the Funds' investment objectives and policies and consider changes in their structure or possible dissolution.

**Repurchase Agreements.** The Prime Fund, Treasury Fund, Government Fund, Tax-Exempt Money Fund, California Tax-Exempt Money Market Fund and Prime Value Fund may enter into repurchase agreements with respect to their portfolio securities as indicated in their Prospectuses. Pursuant to such agreements, a Fund purchases securities from financial institutions such as banks and broker-dealers which are deemed to be creditworthy by the investment adviser under guidelines approved by the Board of Directors, subject to the seller's agreement to repurchase and the Fund's agreement to resell such securities at a specified date and price. No Fund will enter into repurchase agreements with Bank of America or Bank of America's affiliates, nor will any Fund give preference to repurchase agreements with Shareholder Organizations. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the underlying portfolio security). Securities subject to repurchase agreements will be held by the Funds' custodian or a sub-custodian or in the Federal Reserve/Treasury book-entry system, and a Fund will make payment for such securities only upon receipt of evidence of physical delivery of the securities or of such book entry. The seller under a repurchase agreement will be required to maintain the value of the underlying securities at not less than 102% of the repurchase price under the agreement. If the seller defaulted on its repurchase obligation, the Fund holding the repurchase agreement would suffer a loss to the extent that the proceeds from a sale of the underlying securities were less than the repurchase price under the agreement. Bankruptcy or insolvency of such a defaulting seller may cause the particular Fund's rights with respect to such securities to be delayed or limited. Repurchase agreements are considered to be loans by a Fund under the Investment Company Act of 1940.

**Reverse Repurchase Agreements.** The Funds may also enter into reverse repurchase agreements with respect to their securities. Whenever a Fund enters into a reverse repurchase agreement, it will place in a segregated

account maintained with its custodian liquid assets such as cash, U.S. Government securities and other liquid high-grade debt securities having a value equal to the repurchase price (including accrued interest) and will subsequently monitor the account for maintenance of such equivalent value. Reverse repurchase agreements are considered to be borrowings by a Fund under the Investment Company Act of 1940.

#### Investment Practices

**When-Issued Securities, Forward Commitments and Delayed Settlements.** The Funds may purchase securities on a "when-issued," forward commitment or delayed settlement basis (i.e., for delivery beyond the normal settlement date at a stated price and yield). When a Fund agrees to purchase securities on a when-issued, forward commitment or delayed settlement basis, its custodian will set aside cash or liquid portfolio securities equal to the amount of the commitment in a separate account. Normally the custodian will set aside portfolio securities to satisfy a purchase commitment, and in such a case a Fund may be required subsequently to place additional assets (cash or liquid securities) in the separate account so that the value of the account remains equal to the amount of such Fund's commitment. The Funds do not intend to engage in these transactions for speculative purposes but only in furtherance of their investment objectives. Because a Fund will set aside cash or liquid investments to satisfy its purchase commitments in the manner described, the Fund's liquidity and the ability of the investment adviser to manage it may be affected in the event the Fund's forward commitments, commitments to purchase when-issued securities and delayed settlements ever exceeded 25% of the value of its assets.

A Fund will purchase securities on a when-issued, forward commitment or delayed settlement basis only with the intention of completing the transaction. If deemed advisable as a matter of investment strategy, however, a Fund may dispose of or renegotiate a commitment after it is entered into, and may sell securities it has committed to purchase before those securities are delivered to the Fund on the settlement date. In these cases the Fund may realize a taxable capital gain or loss.

When a Fund engages in when-issued, forward commitment and delayed settlement transactions, it relies on the other party to consummate the trade. Failure of such party to do so may result in the Fund's incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

The market value of the securities underlying a when-issued purchase, a forward commitment to purchase securities, or a delayed settlement and any subsequent fluctuations in their market value is taken into account when determining the market value of a Fund starting on the day the Fund agrees to purchase the securities. The Fund does not earn interest on the securities it has committed to purchase until they are paid for and delivered on the settlement date.

**Stand-By Commitments.** The Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may acquire "stand-by commitments" with respect to Municipal Securities held in their respective portfolios. Under a "stand-by commitment," a dealer agrees to purchase from a Fund, at the Fund's option, specified Municipal Securities at a specified price.

The amount payable to the Tax-Exempt Money Fund or the California Tax-Exempt Money Market Fund upon its exercise of a "stand-by commitment" is normally the amortized cost of the underlying instruments plus accrued interest, if any. "Stand-by commitments" can be acquired when the remaining maturity of the underlying Municipal Securities is not greater than thirteen months, and are exercisable by a Fund at any time before the maturity of such obligations. In determining net asset value, a Fund values Municipal Securities on the basis of amortized cost without reference to the presence of the "stand-by commitment," as described below. A "stand-by commitment" may be sold, transferred or assigned by a Fund only with the instrument involved.

The Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund expect that "stand-by commitments" will generally be available without the payment of any direct or indirect consideration. However, if necessary or advisable, a Fund may pay for a "stand-by commitment" either separately in cash or by paying a higher price for portfolio securities which are acquired subject to the commitment (thus reducing the yield to maturity otherwise available for



the same securities). The total amount paid in either manner for outstanding "stand-by commitments" held by a Fund will not exceed 1/2 of 1% of the value of its total assets calculated immediately after each "stand-by commitment" is acquired.

The Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund intend to enter into "stand-by commitments" only with dealers, banks and broker-dealers which, in the investment adviser's opinion, present minimal credit risks. A Fund's reliance upon the credit of these dealers, banks and broker-dealers is secured by the value of the underlying Municipal Securities that are subject to a commitment.

The Tax-Exempt Money Fund or California Tax-Exempt Money Market Fund would acquire "stand-by commitments" solely to facilitate portfolio liquidity and do not intend to exercise their rights thereunder for trading purposes. The acquisition of a "stand-by commitment" would not affect the valuation or assumed maturity of the underlying Municipal Securities, which would continue to be valued at amortized cost in accordance with the ordinary method of valuation employed by a Fund. "Stand-by commitments" which would be acquired by a Fund would be valued at zero in determining net asset value. Where a Fund paid any consideration directly or indirectly for a "stand-by commitment," its cost would be reflected as unrealized depreciation for the period during which the commitment was held by the Fund. "Stand-by commitments" would not affect a Fund's average weighted maturity.

Loans of Securities. The Prime Fund, Government Fund, Treasury Only Fund and Prime Value Fund may lend their securities to brokers, dealers and financial institutions, provided (1) the loan is secured continuously by collateral consisting of U.S. Government securities (U.S. Treasury securities with respect to the Treasury Only Fund) or cash or letters of credit which is marked to the market daily to ensure that each loan is fully collateralized at all times; (2) the Fund involved may at any time call the loan and obtain the return of the securities loaned within five business days; (3) the Fund will receive any interest or dividends paid on the securities loaned; and (4) the aggregate market value of securities loaned will not at any time exceed 30% of the total assets of the Fund (33% with respect to the Treasury Only Fund).

A Fund will earn income for lending its securities because cash collateral pursuant to these loans will be invested in short term money market instruments. In connection with lending securities, a Fund may pay reasonable finders, administrative and custodial fees. Loans of securities involve a risk that the borrower may fail to return the securities or may fail to provide additional collateral.

#### Special Considerations Relating to California Municipal Securities

Economic Factors. The Governor's 1993-1994 Budget, introduced on January 8, 1993, proposed general fund expenditures of \$37.3 billion, with projected revenues of \$39.9 billion. To balance the budget in the face of declining revenues, the Governor proposed a series of revenue shifts from local government, reliance on increased federal aid, and reductions in state spending.

The Department of Finance of the State of California's May Revision of General Fund Revenues and Expenditures (the "May Revision"), released on May 20, 1993, projected the State would have an accumulated deficit of about \$2.75 billion by June 30, 1993, essentially unchanged from the prior year. The Governor proposed to eliminate this deficit over an 18-month period. Unlike previous years, the Governor's Budget and May Revision did not calculate a "gap" to be closed, but rather set forth revenue and expenditure forecasts and proposals designed to produce a balanced budget.

The 1993-1994 budget act (the "1993-94 Budget Act") was signed by the Governor on June 30, 1993, along with implementing legislation. The Governor vetoed about \$71 million in spending.

The 1993-94 Budget Act was predicated on general fund revenues and transfers estimated at \$40.6 billion, \$400 million below 1992-93 (and the second consecutive year of actual decline). The principal reasons for declining revenue were the continued weak economy and the expiration (or repeal) of three fiscal steps taken in 1991--a half cent temporary sales tax, a deferral of operating loss carryforwards, and repeal by initiative of a sales tax on candy and snack foods.

The 1993-94 Budget Act also assumed special fund revenues of \$11.9 billion, an increase of 2.9 percent over 1992-93.

The 1993-94 Budget Act includes general fund expenditures of \$38.5 billion (a 6.3 percent reduction from projected 1992-93 expenditures of \$41.1 billion), in order to keep a balanced budget within the available revenues. The 1993-94 Budget Act also included special fund expenditures of \$12.1 billion, a 4.2 percent increase. The 1993-94 Budget Act reflected the following major adjustments:

1. Changes in local government financing to shift about \$2.6 billion in property taxes from cities, counties, special districts and redevelopment agencies to school and community college districts, thereby reducing general fund support by an equal amount. About \$2.5 billion is permanent, reflecting termination of the State's "bailout" of local governments following the property tax cuts of Proposition 13 in 1978 (See "Constitutional, Legislative and Other Factors" below).

The property tax revenue losses for cities and counties were offset in part by additional sales tax revenues and mandate relief.

2. The 1993-94 Budget Act projected K-12 Proposition 98 funding on a cash basis at the same per-pupil level as 1992-93 by providing schools a \$609 million loan payable from future years' Proposition 98 funds.

3. The 1993-94 Budget Act assumed receipt of about \$692 million of aid to the State from the federal government to offset health and welfare costs associated with foreign immigrants living in the State, which would reduce a like amount of General Fund expenditures. About \$411 million of this amount was one-time funding. Congress ultimately appropriated only \$450 million.

4. Reductions of \$600 million in health and welfare programs and \$400 million in support for higher education (partly offset by fee increases at all three units of higher education) and various miscellaneous cuts (totalling approximately \$150 million) in State government services in many agencies, up to 15 percent.

5. A 2-year suspension of the renters' tax credit (\$390 million expenditure reduction in 1993-94).

6. Miscellaneous one-time items, including deferral of payment to the Public Employees Retirement Fund (\$339 million) and a change in accounting for debt service from accrual to cash basis, saving \$107 million.

The 1993-94 Budget Act contained no general fund tax/revenue increases other than a two year suspension of the renters' tax credit. The 1993-1994 Budget Act suspended the 4 percent automatic budget reduction trigger, as was done in 1992-1993, so cuts could be focused.

Administration reports during the course of the 1993-1994 Fiscal Year indicated that while economic recovery appeared to have started in the second half of the fiscal year, recessionary conditions continued longer than had been anticipated when the 1993-1994 Budget Act was adopted. Overall, revenues for the 1993-1994 Fiscal Year were about \$800 million lower than original projections, and expenditures were about \$780 million higher, primarily because of higher health and welfare caseloads, lower property taxes which required greater State support for K-14 education to make up the shortfall, and lower than anticipated federal government payments for immigration-related costs. The reports in May and June, 1994, indicated that revenues in the second half of the 1993-1994 Fiscal Year have been very close to the projections made in the Governor's Budget of January 10, 1994, which is consistent with a slow turnaround in the economy.

The Department of Finance's July 1994 Bulletin, including the final June receipts, reported that June revenues were \$114 million (2.5 percent) above projection, with final end-of-year results at \$377 million (about 1 percent) above the May Revision projections. Part of this result was due to end-of-year adjustments and reconciliations. Personal income tax and sales tax continued to track projections very well. The largest factor in the higher than anticipated revenues was from bank and corporation taxes, which were \$140 million (18.4

percent) above projection in June. While the higher June receipts are reflected in the actual 1993-94 Fiscal Year cash flow results, and help the starting cash balance for the 1994-95 Fiscal Year, the Department of Finance has not adjusted any of its revenue projections for the 1994-95 or 1995-96 Fiscal Years.

During the 1993-94 Fiscal Year, the State implemented the deficit retirement plan, which was part of the 1993-94 Budget Act, by issuing \$1.2 billion of revenue anticipation warrants in February 1994 maturing December 21, 1994. This borrowing reduced the cash deficit at the end of the 1993-94 Fiscal Year. Nevertheless, because of the \$1.5 billion variance from the original 1993-94 Budget Act assumptions, the General Fund ended the fiscal year at June 30, 1994 carrying forward an accumulated deficit of approximately \$2 billion.

Because of the revenue shortfall and the State's reduced internal borrowable cash resources, in addition to the \$1.2 billion of revenue anticipation warrants issued as part of the deficit retirement plan, the State issued an additional \$2.0 billion of revenue anticipation warrants, maturing July 26, 1994, which were needed to fund the State's obligations and expenses through the end of the 1993-94 Fiscal Year.

On January 17, 1994, a major earthquake measuring an estimated 6.8 on the Richter Scale struck Los Angeles. Significant property damage to private and public facilities occurred in a four-county area including northern Los Angeles County, Ventura County, and parts of Orange and San Bernardino Counties, which were declared as State and federal disaster areas by January 18. Current estimates of total property damage (private and public) are in the range of \$20 billion, but these estimates are still subject to change.

Despite such damage, on the whole, the vast majority of structures in the areas, including large manufacturing and commercial buildings and all modern high-rise offices, survived the earthquake with minimal or no damage, validating the cumulative effect of strict building codes and thorough preparation for such an emergency by the State and local agencies.

Damage to state-owned facilities included transportation corridors and facilities such as Interstate Highways 5 and 10 and State Highways 14, 118 and 210. Major highways have now been reopened. The campus of California State University at Northridge (very near the epicenter) suffered an estimated \$350 million damage, resulting in temporary closure of the campus. It has reopened using borrowed facilities elsewhere in the area and many temporary structures. There was also some damage to the University of California at Los Angeles and to an office building in Van Nuys (now open after a temporary closure). Overall, except for the temporary road and bridge closures, and CSU-Northridge, the earthquake did not and is not expected to significantly affect State government operations.

The State in conjunction with the federal government is committed to providing assistance to local governments, individuals and businesses suffering damage as a result of the earthquake, as well as to provide for the repair and replacement of State-owned facilities. The federal government will provide substantial earthquake assistance.

The President immediately allocated some available disaster funds, and Congress has approved additional funds for a total of at least \$9.5 billion of federal funds for earthquake relief, including assistance to homeowners and small businesses, and costs for repair of damaged public facilities. The Governor originally proposed that the State will have to pay about \$1.9 billion for earthquake relief costs, including a 10 percent match to some of the federal funds, and costs for some programs not covered by the federal aid. The Governor proposed to cover \$1.05 billion of these costs from a general obligation bond issue which was on the June 1994 ballot, but it was not approved by the voters. The Governor subsequently announced that the State's share for transportation projects would come from existing Department of Transportation funds (thereby delaying other, non-earthquake related projects), that the State's share for certain other costs (including local school building repairs) would come from reallocating existing bond funds, and that a proposed program for homeowner and small business aid supplemental to federal aid would have to be abandoned. Some other costs will be borrowed from the federal government in a manner similar to that used by the State of Florida after Hurricane Andrew; pursuant to Senate Bill 2383, repayment will have to be addressed in 1995-96 or beyond. The 1995-96 Governor's Budget includes \$60 million as the first repayment of an estimated

\$121.4 million in loans prior to June 30, 1995.

The 1994-95 Fiscal Year represents the fourth consecutive year the Governor and Legislature were faced with a very difficult budget environment to produce a balanced budget. Many program cuts and budgetary adjustments have already been made in the last three years. The Governor's Budget proposal, as updated in May and June, 1994, recognized that the accumulated deficit could not be repaid in one year, and proposed a two-year solution. The budget proposal sets forth revenue and expenditure forecasts and revenue and expenditure proposals which result in operating surpluses for the budget for both 1994-95 and 1995-96, and lead to the elimination of the accumulated budget deficit, estimated at about \$1.8 billion at June 30, 1994, by June 30, 1996.

The 1994-95 Budget Act, signed by the Governor on July 8, 1994, projects revenues and transfers of \$41.9 billion, \$2.1 billion higher than revenues in 1993-94. This reflects the Administration's forecast of an improving economy. Also included in this figure is a projected receipt of about \$360 million from the Federal Government to reimburse the State's cost of incarcerating undocumented immigrants. The State will not know how much the Federal Government will actually provide until the Federal FY 1995 Budget is completed. Completion of the Federal Budget is expected by October 1994. The Legislature took no action on a proposal in the January 1994-95 Governor's Budget to undertake an expansion of the transfer of certain programs to counties, which would also have transferred to counties 0.5% of the State's current sales tax.

The 1994-95 Budget Act projects Special Fund revenues of \$12.1 billion, a decrease of 2.4% from 1993-94 estimated revenues.

The 1994-95 Budget Act projects General Fund expenditures of \$40.9 billion, an increase of \$1.6 billion over 1993-94. The 1994-95 Budget Act also projects Special Fund expenditures of \$12.3 billion, a 4.7% decrease from 1993-94 estimated expenditures. The principal features of the 1994-95 Budget Act were the following:

1. Receipt of additional federal aid in 1994-95 of about \$400 million for costs of refugee assistance and medical care for undocumented immigrants, thereby offsetting a similar General Fund cost. The State will not know how much of these funds it will receive until the Federal FY 1995 Budget is passed.

2. Reductions of approximately \$1.1 billion in health and welfare costs. A 2.3% reduction in Aid to Family with Dependent Children payments (equal to about \$56 million for the entire fiscal year) has been suspended by court order.

3. A General Fund increase of approximately \$38 million in support for the University of California and \$65 million for California State University. It is anticipated that student fees for both the University of California and the California State University will increase up to 10%.

4. Proposition 98 funding for K-14 schools is increased by \$526 million from 1993-94 levels, representing an increase for enrollment growth and inflation. Consistent with previous budget agreements, Proposition 98 funding provides approximately \$4,217 per student for K-12 schools, equal to the level in the past three years.

5. Legislation enacted with the Budget clarifies laws passed in 1992 and 1993 which require counties and other local agencies to transfer funds to local school districts, thereby reducing State aid. Some counties had implemented a method of making such transfers which provided less money for schools if there were redevelopment agency projects. The new legislation bans this method of transfer. If all counties had implemented this method, General Fund aid to K-12 schools would have been \$300 million higher in each of the 1994-95 and 1995-96 Fiscal Years.

6. The 1994-95 Budget Act provides funding for anticipated growth in the State's prison inmate population, including provisions for implementing recent legislation (the so-called "Three Strikes" law) which requires mandatory life prison terms for certain third-time felony offenders.

7. Additional miscellaneous cuts (\$500 million) and fund transfers (\$255 million) totalling in the aggregate approximately \$755 million.

The 1994-95 Budget Act contains no tax increases. Under legislation enacted for the 1993-94 Budget, the renters' tax credit was suspended for two years (1993 and 1994). A ballot proposition to permanently restore the renters' tax credit after this year failed at the June, 1994 election. The Legislature enacted a further one-year suspension of the renters' tax credit, for 1995, saving about \$390 million in the 1995-96 Fiscal Year.

The 1994-95 Budget assumed that the State will use a cash flow borrowing program in 1994-95 which combines one-year notes and two-year warrants, which have now been issued. Issuance of warrants allows the State to defer repayment of approximately \$1.0 billion of its accumulated budget deficit into the 1995-96 Fiscal Year.

The State's cash flow management plan for the 1994-95 fiscal year included the issuance of \$4.0 billion of revenue anticipation warrants on July 26, 1994, to mature on April 25, 1996, as part of a two-year plan to retire the accumulated State budget deficit.

Because preparation of cash flow estimates for the 1995-96 Fiscal Year necessarily entails greater risks of variance from assumptions, and because the Governor's two-year budget plan assumes receipt of a large amount of federal aid in the 1995-96 Fiscal Year for immigration-related costs which is uncertain, the Legislature enacted a backup budget adjustment mechanism to mitigate possible deviations from projected revenues, expenditures or internal borrowable resources which might reduce available cash resources during the two-year plan, so as to assure repayment of the warrants.

Pursuant to Section 12467 of the California Government Code, enacted by Chapter 135, Statutes of 1994 (the "Budget Adjustment Law"), the State Controller was required to make a report by November 15, 1994 on whether the projected cash resources for the General Fund as of June 30, 1995 will decrease more than \$430 million from the amount projected by the State in its official statement in July, 1994 for the sale of \$4,000,000,000 of Revenue Anticipation Warrants. On November 15, 1994, the State Controller issued the report on the State's cash position required by the Budget Adjustment Law. The report indicated that the cash position of the General Fund on June 30, 1995 would be \$581 million better than was estimated in the July, 1994 cash flow projections and therefore, no budget adjustment procedures will be invoked for the 1994-95 Fiscal Year. As explained earlier, the Law would only be implemented if the State Controller estimated that borrowable resources on June 30, 1995 would be at least \$430 million lower than projected.

The State Controller's report identified a number of factors which have led to the improved cash position of the State. Estimated revenues and transfers for the 1994-95 Fiscal Year other than federal reimbursement for immigration costs were up about \$650 million. The largest portion of this was in higher bank and corporation tax receipts, but all major tax sources were above original projections. However, most of the federal immigration aid revenues projected in connection with the 1994-95 Budget Act and in the July, 1994 cash flows will not be received, as indicated above, leaving a net increase in revenues of \$322 million.

On the expenditure side, the State Controller reported that estimated reduced caseload growth in health and welfare programs, reduced school enrollment growth, and an accounting adjustment reducing a transfer from the General Fund to the Special Fund for Economic Uncertainties resulted in overall General Fund expenditure reductions (again before adjusting for federal aid) of \$672 million. However, the July, 1994 cash flows projected that General Fund health and welfare and education expenditures would be offset by the anticipated receipt of \$407 million in federal aid for illegal immigrant costs. The State Controller now estimates that none of these funds will be received, so the net reduction in General Fund expenditures is \$265 million.

Finally, the State Controller indicated that a review of balances in special funds available for internal borrowing resulted in an estimated reduction of such borrowable resources of \$6 million. The combination of these factors results in the estimated improvement of the General Fund's cash position

of \$581 million. The State Controller's revised cash flow projections for 1994-95 have allocated this improvement to two line items: an increase from \$0 to \$427 million in the estimated ending cash balance of the General Fund on June 30, 1995, and an increase in unused borrowable resources of \$154 million.

The State Controller's report indicated that there was no anticipated cash impact in the 1994-95 Fiscal Year for recent initiatives on "three strikes" criminal penalties and illegal immigration which were approved by voters on November 8, 1994. At a hearing before a committee of the Legislature on November 15, 1994, both the Legislative Analyst and the Department of Finance concurred in the reasonableness of the State Controller's report. (The Legislative Analyst had issued a preliminary analysis on November 1, 1994 which reached a conclusion very close to that of the State Controller.) The State Controller's report makes no projections about whether the Law may have to be implemented in 1995-96. However, both the State Controller and the Legislative Analyst in the November 15 hearing noted that the July, 1994 cash flows for the 1995-96 Fiscal Year place continued reliance on large amounts of federal assistance for immigration costs, which did not materialize this year, indicating significant budget pressures for next year. The Department of Finance indicated that the budgetary issues identified in the hearing would be addressed in the Governor's Budget proposal for the 1995-96 Fiscal Year, which was released in early January, 1995.

The 1995-96 Governor's Budget, discussed below, contains a reforecast of revenues and expenditures for the 1994-95 Fiscal Year. The Department of Finance Bulletins for February and March 1995 report that combined General Fund revenues for February, 1995 were about \$356 million below forecast, but combined revenues for January and February were only about \$82 million (or 0.3 percent) below the 1995-96 Governor's Budget forecast. The largest component of the decrease is attributable to personal income tax receipts, which were about \$131 million (or 1.1 percent) below the two months' forecast. This decrease in personal income tax receipts appears to be largely attributable to fourth quarter 1994 activity, probably in the anticipation of tax reform, with some taxpayers shifting income into 1995 to the extent possible. The withholding component comprised \$77 million of this shortfall, but the Department of Finance does not yet view this as significant. Additionally, sales and use tax receipts were very close to forecast for the two-month period, while bank and corporation tax receipts were about \$42 million (or 1.5 percent) below the two months' forecast. Miscellaneous revenues were about \$117 million (or 6.2 percent) above forecast for the two months, but the Department of Finance is not yet able to determine whether this gain is real, or is instead attributable to cash flow factors.

Initial analysis of the federal Fiscal Year 1995 budget by the Department of Finance indicates that about \$98 million was appropriated for California to offset costs of incarceration of undocumented and refugee immigrants, less than the \$356 million which was assumed in the State's 1994-95 Budget Act. Because of timing considerations in applying for these federal funds, the Department estimates that about \$33 million of these funds will be received during the State's 1994-95 Fiscal Year, with the balance received in the following fiscal year. It does not appear that the federal budget contains any of the additional \$400 million in funding for refugee assistance and health costs which were also assumed in the 1994-95 Budget Act, but the Department expects the State to continue its efforts to obtain some or all of these federal funds.

On January 10, 1995, the Governor presented his 1995-96 Fiscal Year Budget Proposal (the "Proposed Budget"). The Proposed Budget estimates General Fund revenues and transfers of \$42.5 billion (an increase of 0.2 percent over 1994-95). This nominal increase from the 1994-95 Fiscal Year reflects the Governor's realignment proposal and the first year of his tax cut proposal (see principal features of the Proposed Budget below for further discussions). Without these two proposals, General Fund revenues would be projected at approximately \$43.8 billion, or an increase of 3.3 percent over 1994-95. Expenditures are estimated at \$41.7 billion (essentially unchanged from 1994-95). Special Fund revenues are estimated at \$13.5 billion (10.7 percent higher than 1994-95) and Special Fund expenditures are estimated at \$13.8 billion (12.2 percent higher than 1994-95). The Proposed Budget projects that the General Fund will end the fiscal year at June 30, 1996 with a budget surplus in the Special Fund for Economic Uncertainties of about \$92 million, or less than 1 percent of General Fund expenditures, and will have repaid all of the accumulated budget deficits.

The following are the principal features of the Proposed Budget:

1. The principal feature of the Proposed Budget is a proposed 15 percent cut in personal income and corporate tax rates, which would be phased in at 5 percent per year starting in 1996. Existing personal income tax rates, which are scheduled to drop from 11 percent top rate to 9.3 percent in 1996, would be continued during the time the overall tax cut takes effect. This proposal would reduce General Fund revenues by \$225 million in 1995-96, but the revenue reduction would reach \$3.6 billion by 1998-99.
2. The Governor has proposed an expansion of the realignment program between the State and counties, so that counties will take on greater responsibility for welfare and social services, while the State will take on increased funding of trial court costs. The proposal includes transfer of about \$1 billion of State revenues, from sales taxes and trial court funding moneys, to counties. The net effect of the shifts, however, is estimated to save the General Fund about \$240 million.
3. The Governor proposes further cuts in health and welfare costs totaling about \$1.4 billion. Some of these cuts would require federal legislative approval.
4. Proposition 98 funding for schools and community colleges will increase by about \$1.2 billion, reflecting strong General Fund revenue growth. Per-pupil expenditures are projected to increase by \$61 to \$4,292. For the first time in several years, a cost-of-living increase (2.2 percent) is added to the enrollment growth factor. The Governor proposes to set aside about \$514 million of the Proposition 98 funding increase to repay prior years' loans from the General Fund to schools. As the legality of these loans is currently being challenged in a lawsuit, the Governor proposes to set the amount aside in escrow until the litigation is resolved.
5. The Proposed Budget includes increases in funding for the University of California (\$63 million General Fund) and the California State University system (\$3 million General Fund). The Governor has proposed a four-year funding "company" for the higher education units which includes both annual increases in State funding and increases in student fees.
6. The Proposed Budget assumes receipt of \$830 million in new federal aid for costs of undocumented and refugee immigrants, above commitments already made by the federal government. This amount is much less than an estimated \$2.8 billion which had been included in the Governor's pro-forma two-year plan from last summer.

The Proposed Budget contains a cash flow projection (based on all the assumptions described above) which shows about \$1 billion of unused borrowable resources at June 30, 1996, providing this amount of "cushion" before the budget "trigger" would have to be invoked.

However, a report issued by the Legislative Analyst in February, 1995 notes that the Proposed Budget is subject to a number of major risks, including receipt of the expected federal immigration aid and other federal actions to allow health and welfare costs, and the outcome of several lawsuits concerning previous budget actions which the State has lost at the trial court level, and which are under appeal. This Analyst's Report also estimates that, despite more favorable revenues, the two-year budget estimates made in July, 1994 are about \$2 billion out of balance, principally because federal immigration aid appears likely to be much lower than previously estimated. This shortfall is much smaller than the State has faced in recent years, and has been addressed in the Governor's Budget.

The Director of Finance is required to include updated cash-flow statements for the 1994-95 and 1995-96 Fiscal Years in the May revision to the 1995-96 Fiscal Year budget proposal. By June 1, 1995, the State Controller must concur with these updated statements or provide a revised estimate of the cash condition of the General Fund for the 1994-95 and the 1995-96 Fiscal Years. For the 1995-96 Fiscal Year, Chapter 135 prohibits any external borrowing as of June 30, 1996, thereby requiring the State to rely solely on internal borrowable

resources, expenditure reductions or revenue increases to eliminate any projected cash flow shortfall.

Commencing on October 15, 1995, the State Controller will, in conjunction with the Legislative Analyst's Office, review the estimated cash condition of the General Fund for the 1995-96 Fiscal Year. The "1996 cash shortfall" shall be the amount necessary to bring the balance of unused borrowable resources on June 30, 1996 to zero. On or before December 1, 1995, legislation must be enacted providing for sufficient General Fund expenditure reductions, revenue increases, or both, to offset any such 1996 cash shortfall identified by the State Controller. If such legislation is not enacted, within five days thereafter the Director of Finance must reduce all General Fund appropriations for the 1995-96 Fiscal Year, except the Required Appropriations, by the percentage equal to the ratio of said 1996 cash shortfall to total remaining General Fund appropriations for the 1995-96 Fiscal Year, excluding the Required Appropriations.

On December 6, 1994, Orange County, California and its Investment Pool (the "Pool") filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Approximately 187 California public entities, substantially all of which are public agencies within the County, are investors in the Pool. Many of the agencies have various bonds, notes or other forms of indebtedness outstanding, in some instances the proceeds of which have been invested in the Pool. Such agencies also have additional funds invested in the Pool. Since the filing, investor access to monies in the Pool has been pursuant to Court order only and severely limited. Various investment advisors have been employed by the County to restructure the Pool. Such restructuring has resulted in the sale of substantially all of the Pool's portfolio resulting in losses estimated to be approximately \$1.7 billion or approximately 22% of amounts deposited by the Pool investors, including the County. It is anticipated that such losses may result in delays or failures of the County as well as investors in the Pool to make scheduled debt service payments. Further, the County expects substantial budget deficits to occur in Fiscal Year 1995 with possibly similar effects upon operations of investors in the Pool. The County has failed to make certain deposits to a fund for repayment of \$169,000,000 aggregate principal amount of its short term indebtedness resulting in a technical default under its note resolution. There has been no default in payment to noteholders. Principal and interest on such notes is due on June 30, 1995. Additionally, the County has defaulted in its obligation to accept tenders of its \$110,200,000 aggregate principal amount of its Taxable Pension Obligation Bonds, Series B used to finance County pension obligations. Interest at a rate set pursuant to the bond documents has been timely paid on such Pension Bonds. Principal and interest payments on other indebtedness of the County and the investors will come due at various times and amounts throughout 1995 and thereafter. Both Standard & Poors and Moody's Investors Service have suspended or downgraded ratings on various debt securities of the County and certain of the investors in the Pool. Such suspensions or downgradings could affect both price and liquidity of such securities. The Fund is unable to predict when funds may be released from the Pool to investors, the amount of such funds, if any, whether additional technical and payment defaults by the County and/or investors in the pool may occur and the financial impact upon the value of securities of the County and the investors in the Pool. Further, continuing audits of various funds by outside consultants and the State Auditor have initially identified transfers to and among various funds as unauthorized and/or inappropriate. Such undertakings could result in materially greater or lesser losses among the County and the investors. The County recently filed a motion seeking Bankruptcy Court approval of a proposed comprehensive settlement agreement ("CSA") between the County and Pool investors. On May 2, 1995, the Bankruptcy Court approved the CSA which among other things, (i) established a formula for distribution of all available cash and securities from the Pool to the Pool investors, including the County, (ii) established formulas for distribution among certain settling Pool investors of several tranches of new County obligations to be payable from, and in some instances secured by, certain designated sources of potential recoveries on Pool related claims, and (iii) designated certain outstanding short term note obligations of the County, including the Series B Pension Obligation Bonds, to be senior to or on a parity with certain of the new County obligations.

The California Tax-Exempt Money Market Fund currently holds an Orange County Note, with a par value of \$4,500,000 that matures on August 11, 1995. The Orange County Note is supported by a Letter of Credit issued by PNC, Bank ("PNC"). BankAmerica Corporation has agreed to reimburse PNC for any payments PNC may make under the Letter of Credit. The Letter of Credit expires



after August 11, 1995.

Constitutional, Legislative and Other Factors. Certain California constitutional amendments, legislative measures, executive orders, administrative regulations and voter initiatives could result in the adverse effects described below. The following information constitutes only a brief summary, does not purport to be a complete description and is based on information drawn from official statements and prospectuses relating to securities offerings of the State of California and various local agencies in California, available as of the date of the Tax-Exempt Money Fund's and California Tax-Exempt Money Market Fund's Prospectus and this Statement of Additional Information. While the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund have not independently verified such information, they have no reason to believe that such information is not correct in all material respects.

Certain California Municipal Securities in the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may be obligations of issuers which rely in whole or in part on California State revenues for payment of these obligations. Property tax revenues and a portion of the State's general fund surplus are distributed to counties, cities and their various taxing entities and the State assumes certain obligations theretofore paid out of local funds. Whether and to what extent a portion of the State's general fund will be distributed in the future to counties, cities and their various entities, is unclear.

In 1988, California enacted legislation providing for a water's-edge combined reporting method if an election fee was paid and other conditions met. On October 6, 1993, California Governor Pete Wilson signed Senate Bill 671 (Alquist) which modifies the unitary tax law by deleting the requirements that a taxpayer electing to determine its income on a water's-edge basis pay a fee and file a domestic disclosure spreadsheet and instead requiring an annual information return. Significantly, the Franchise Tax Board can no longer disregard a taxpayer's election. The Franchise Tax Board is reported to have estimated state revenue losses from the Legislation as growing from \$27 million in 1993-94 to \$616 million in 1999-2000, but others, including Assembly Speaker Willie Brown, disagree with that estimate and assert that more revenue will be generated for California, rather than less, because of an anticipated increase in economic activity and additional revenue generated by the incentives in the Legislation.

Certain California Municipal Securities in the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may be obligations of issuers who rely in whole or in part on ad valorem real property taxes as a source of revenue. On June 6, 1978, California voters approved an amendment to the California Constitution known as Proposition 13, which added Article XIII A to the California Constitution. The effect of Article XIII A is to limit ad valorem taxes on real property and to restrict the ability of taxing entities to increase real property tax revenues. On November 7, 1978, California voters approved Proposition 8 and on June 3, 1986, the California voters approved Proposition 46, both of which amended Article XIII A.

Section 1 of Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2), to be collected by the counties and apportioned according to law; provided that the 1% limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on (i) any indebtedness approved by the voters prior to July 1, 1978, or (ii) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or reduced in the event of declining property value caused by damage, destruction or other factors. The California State Board of Equalization has adopted regulations, binding on county assessors, interpreting the meaning of "change in ownership" and "new construction" for purposes of determining full cash value of property under Article XIII A.

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the former practice of using 25%, instead of 100%, of full cash value as the assessed value for tax purposes). The legislation further provided that, for the 1978/79 fiscal year only, the tax levied by each county was to be apportioned among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years. The apportionment of property taxes for fiscal years after 1978/79 has been revised pursuant to Statutes of 1979, Chapter 282, which provides relief funds from State moneys beginning in fiscal year 1979/80 and is designed to provide a permanent system for sharing State taxes and budget funds with local agencies. Under Chapter 282, cities and counties receive more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$4.00 per \$100 assessed valuation) and the bonded debt tax rate.

On November 6, 1979, an initiative known as "Proposition 4" or the "Gann Initiative" was approved by the California voters, which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual "appropriations limit" and are not allowed to spend certain moneys called "appropriations subject to limitation" in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is required to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, population and certain services provided by these entities. Article XIII B also provides that if these entities' revenues in any year exceed the amounts permitted to be spent, the excess is to be returned by revising tax rates or fee schedules over the subsequent two years.

At the November 8, 1988 general election, California voters approved an initiative known as Proposition 98. This initiative amends Article XIII B to require that (i) the California Legislature establish a prudent state reserve fund in an amount as it shall deem reasonable and necessary and (ii) revenues in excess of amounts permitted to be spent and which would otherwise be returned pursuant to Article XIII B by revision of tax rates or fee schedules, be transferred and allocated (up to a maximum of 4%) to the State School Fund and be expended solely for purposes of instructional improvement and accountability. No such transfer or allocation of funds will be required if certain designated state officials determine that annual student expenditures and class size meet certain criteria as set forth in Proposition 98. Any funds allocated to the State School Fund shall cause the appropriation limits established in Article XIII B to be annually increased for any such allocation made in the prior year.

Proposition 98 also amends Article XVI to require that the State of California provide a minimum level of funding for public schools and community colleges. Commencing with the 1988-89 fiscal year, state monies to support school districts and community college districts shall equal or exceed the lesser of (i) an amount equalling the percentage of state general revenue bonds for school and community college districts in fiscal year 1986-87, or (ii) an amount equal to the prior year's state general fund proceeds of taxes appropriated under Article XIII B plus allocated proceeds of local taxes, after adjustment under Article XIII B. The initiative permits the enactment of legislation, by a two-thirds vote, to suspend the minimum funding requirement for one year.

On June 30, 1989, the California Legislature enacted Senate Constitutional Amendment 1, a proposed modification of the California Constitution to alter the spending limit and the education funding provisions of Proposition 98. Senate Constitutional Amendment 1, on the June 5, 1990 ballot as Proposition 111, was approved by the voters and took effect on July 1, 1990. Among a number of important provisions, Proposition 111 recalculates spending limits for the State and for local governments, allows greater annual increases

in the limits, allows the averaging of two years' tax revenues before requiring action regarding excess tax revenues, reduces the amount of the funding guarantee in recession years for school districts and community college districts (but with a floor of 40.9 percent of State general fund tax revenues), removes the provision of Proposition 98 which included excess moneys transferred to school districts and community college districts in the base calculation for the next year, limits the amount of State tax revenue over the limit which would be transferred to school districts and community college districts, and exempts increased gasoline taxes and truck weight fees from the State appropriations limit. Additionally, Proposition 111 exempts from the State appropriations limit funding for capital outlays.

Article XIII B, like Article XIII A, may require further interpretation by both the Legislature and the courts to determine its applicability to specific situations involving the State and local taxing authorities. Depending upon the interpretation, Article XIII B may limit significantly a governmental entity's ability to budget sufficient funds to meet debt service on bonds and other obligations.

On November 4, 1986, California voters approved an initiative statute known as Proposition 62. This initiative (i) requires that any tax for general governmental purposes imposed by local governments be approved by resolution or ordinance adopted by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the electorate of the governmental entity, (ii) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (iii) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (iv) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (v) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governments, (vi) requires that any tax imposed by a local government on or after August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988, (vii) requires that, in the event a local government fails to comply with the provisions of this measure, a reduction in the amount of property tax revenue allocated to such local government occurs in an amount equal to the revenues received by such entity attributable to the tax levied in violation of the initiative, and (viii) permits these provisions to be amended exclusively by the voters of the State of California.

In September 1988, the California Court of Appeal in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623, 215 Cal. Rptr. 511 (Cal. Ct. App. 1988), held that Proposition 62 is unconstitutional to the extent that it requires a general tax by a general law city, enacted on or after August 1, 1985 and prior to the effective date of Proposition 62, to be subject to approval by a majority of voters. The Court held that the California Constitution prohibits the imposition of a requirement that local tax measures be submitted to the electorate by either referendum or initiative. It is not possible to predict the impact of this decision on charter cities, on special taxes or on new taxes imposed after the effective date of Proposition 62.

On November 8, 1988, California voters approved Proposition 87. Proposition 87 amended Article XVI, Section 16, of the California Constitution by authorizing the California Legislature to prohibit redevelopment agencies from receiving any of the property tax revenue raised by increased property tax rates levied to repay bonded indebtedness of local governments which is approved by voters on or after January 1, 1989. It is not possible to predict whether the California Legislature will enact such a prohibition nor is it possible to predict the impact of Proposition 87 on redevelopment agencies and their ability to make payments on outstanding debt obligations.

Certain California Municipal Securities held by the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may be obligations which are payable solely from the revenues of health care institutions. Certain provisions under California law may adversely affect these revenues and, consequently, payment on those Municipal Securities.

The Federally sponsored Medicaid program for health care services to eligible welfare beneficiaries in California is known as the Medi-Cal program. Historically, the Medi-Cal program has provided for a cost-based system of

reimbursement for inpatient care furnished to Medi-Cal beneficiaries by any hospital wanting to participate in the Medi-Cal program, provided such hospital met applicable requirements for participation. California law now provides that the State of California shall selectively contract with hospitals to provide acute inpatient services to Medi-Cal patients. Medi-Cal contracts currently apply only to acute inpatient services. Generally, such selective contracting is made on a flat per diem payment basis for all services to Medi-Cal beneficiaries, and generally such payment has not increased in relation to inflation, costs or other factors. Other reductions or limitations may be imposed on payment for services rendered to Medi-Cal beneficiaries in the future.

Under this approach, in most geographical areas of California, only those hospitals which enter into a Medi-Cal contract with the State of California will be paid for non-emergency acute inpatient services rendered to Medi-Cal beneficiaries. The State may also terminate these contracts without notice under certain circumstances and is obligated to make contractual payments only to the extent the California legislature appropriates adequate funding therefor.

California enacted legislation in 1982 that authorizes private health plans and insurers to contract directly with hospitals for services to beneficiaries on negotiated terms. Some insurers have introduced plans known as "preferred provider organizations" ("PPOs"), which offer financial incentives for subscribers who use only the hospitals which contract with the plan. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. Discounts offered to HMOs and PPOs may result in payment to the contracting hospital of less than actual cost and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses or of bankruptcy of the respective HMO or PPO. It is expected that failure to execute and maintain such PPO and HMO contracts would reduce a hospital's patient base or gross revenues. Conversely, participation may maintain or increase the patient base, but may result in reduced payment and lower net income to the contracting hospitals.

These California Municipal Securities may also be insured by the State of California pursuant to an insurance program implemented by the Office of Statewide Health Planning and Development for health facility construction loans. If a default occurs on insured California Municipal Securities, the State Treasurer will issue debentures payable out of a reserve fund established under the insurance program or will pay principal and interest on an unaccelerated basis from unappropriated State funds. At the request of the Office of Statewide Health Planning and Development, Arthur D. Little, Inc. prepared a study in December 1983, to evaluate the adequacy of the reserve fund established under the insurance program and based on certain formulations and assumptions found the reserve fund substantially underfunded. In September of 1986, Arthur D. Little, Inc. prepared an update of the study and concluded that an additional 10% reserve be established for "multi-level" facilities. For the balance of the reserve fund, the update recommended maintaining the current reserve calculation method. In March of 1990, Arthur D. Little, Inc. prepared a further review of the study and recommended that separate reserves continue to be established for "multi-level" facilities at a reserve level consistent with those that would be required by an insurance company.

Certain California Municipal Securities in the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may be obligations which are secured in whole or in part by a mortgage or deed of trust on real property. California has five principal statutory provisions which limit the remedies of a creditor secured by a mortgage or deed of trust. Two limit the creditor's right to obtain a deficiency judgment, one limitation being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale. Under the latter, a deficiency judgment is barred when the foreclosed mortgage or deed of trust secures certain purchase money obligations. Another California statute, commonly known as the "one form of action" rule, requires creditors secured by real property to exhaust their real property security by foreclosure before bringing a personal action against the debtor. The fourth statutory provision limits any deficiency judgment obtained by a creditor secured by real property following a judicial sale of such property to the excess of the outstanding debt over the fair value of the

property at the time of the sale, thus preventing the creditor from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. The fifth statutory provision gives the debtor the right to redeem the real property from any judicial foreclosure sale as to which a deficiency judgement may be ordered against the debtor.

Upon the default of a mortgage or deed of trust with respect to California real property, the creditor's nonjudicial foreclosure rights under the power of sale contained in the mortgage or deed of trust are subject to the constraints imposed by California law upon transfers of title to real property by private power of sale. During the three-month period beginning with the filing of a formal notice of default, the debtor is entitled to reinstate the mortgage by making any overdue payments. Under standard loan servicing procedures, the filing of the formal notice of default does not occur unless at least three full monthly payments have become due and remain unpaid. The power of sale is exercised by posting and publishing a notice of sale for at least 20 days after expiration of the three-month reinstatement period. Therefore, the effective minimum period for foreclosing on a mortgage could be in excess of seven months after the initial default. Such time delays in collections could disrupt the flow of revenues available to an issuer for the payment of debt service on the outstanding obligations if such defaults occur with respect to a substantial number of mortgages or deeds of trust securing an issuer's obligations.

In addition, a court could find that there is sufficient involvement of the issuer in the nonjudicial sale of property securing a mortgage for such private sale to constitute "state action," and could hold that the private-right-of-sale proceedings violate the due process requirements of the Federal or State Constitutions, consequently preventing an issuer from using the nonjudicial foreclosure remedy described above.

Certain California Municipal Securities in the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may be obligations which finance the acquisition of single family home mortgages for low and moderate income mortgagors. These obligations may be payable solely from revenues derived from the home mortgages, and are subject to California's statutory limitations described above applicable to obligations secured by real property. Under California antideficiency legislation, there is no personal recourse against a mortgagor of a single family residence purchased with the loan secured by the mortgage, regardless of whether the creditor chooses judicial or nonjudicial foreclosure.

Under California law, mortgage loans secured by single-family owner-occupied dwellings may be prepaid at any time. Prepayment charges on such mortgage loans may be imposed only with respect to voluntary prepayments made during the first five years during the term of the mortgage loan, and cannot in any event exceed six months' advance interest on the amount prepaid in excess of 20% of the original principal amount of the mortgage loan. This limitation could affect the flow of revenues available to an issuer for debt service on the outstanding debt obligations which financed such home mortgages.

#### Investment Limitations

The Prospectuses for each Fund sets forth certain fundamental policies that may not be changed with respect to such Fund without the affirmative vote of the holders of the majority of the Fund's outstanding shares (as defined below under "Miscellaneous"). Similarly, the following enumerated additional fundamental policies may not be changed with respect to a Fund without such a vote of shareholders.

The Prime Fund may not:

1. Purchase securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities) if immediately thereafter more than 15% of its total assets would be invested in certificates of deposit or bankers' acceptances of any one bank, or more than 5% of its total assets would be invested in other securities of any one bank or the securities of any other issuer (except that up to 25% of the Fund's total assets may be invested without regard to this limitation).

In accordance with current regulations of the Securities and

Exchange Commission, the Prime Fund presently intends to limit its investments in the securities of any single issuer (other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities) to not more than 5% of the Fund's total assets at the time of purchase, provided that the Fund may invest up to 25% of its total assets in the securities of any one issuer for a period that does not exceed three business days. This intention is not, however, a fundamental policy of the Fund.

The Prime Value Fund may not:

1. Purchase securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities) if immediately thereafter more than 5% of its total assets would be invested in the securities of any one issuer (except that up to 25% of the Fund's total assets may be invested without regard to this limitation).

In accordance with current regulations of the Securities and Exchange Commission, the Prime Value Fund presently intends to limit its investments in the securities of any single issuer (other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities) to not more than 5% of the Fund's total assets at the time of purchase, provided that the Fund may invest up to 25% of its total assets in the securities of any one issuer for a period that does not exceed three business days. This intention is not, however, a fundamental policy of the Fund. Additionally, for purposes of the above fundamental policy, the guarantor of a guaranteed security may, in certain circumstances, also be considered to be an issuer in connection with such guarantee.

The Prime Fund, Treasury Fund, California Tax-Exempt Money Market Fund and Prime Value Fund may not:

1. Purchase or sell real estate (however, a Fund may, to the extent appropriate to its investment objective, purchase securities issued by companies investing in real estate or interests therein and the California Tax-Exempt Money Market Fund may purchase Municipal Securities secured by real estate or interests therein).

2. Underwrite the securities of other issuers.

3. Purchase securities of companies for the purpose of exercising control.

4. Purchase securities on margin, make short sales of securities or maintain a short position.

5. Except for the Prime Value Fund, acquire any other investment company or investment company security except in connection with a merger, consolidation, reorganization or acquisition of assets.

6. Make loans except that (i) a Fund may purchase or hold debt instruments and enter into repurchase agreements pursuant to its investment objective and policies, and (ii) the Prime Fund and the Prime Value Fund may lend portfolio securities.

Neither the Government Fund nor the Treasury Only Fund may:

1. Purchase any security or evidence of interest therein on margin, except that a Fund may obtain such short term credit as may be necessary for the clearance of purchases and sales of securities.

2. Underwrite securities issued by other persons, except that all of the assets of a Fund may be invested in a corresponding investment company with the same investment objective and policies and except insofar as a Fund may technically be deemed an underwriter under the Securities Act of 1933 in selling a security.

3. Make loans to other persons except (a) through the lending of securities held by a Fund, (b) through the use of fixed time deposits or repurchase agreements or the purchase of short term obligations, or (c) by purchasing all or a portion of an issue of debt securities of types commonly distributed privately to financial institutions; for purposes of this investment restriction the purchase of short-term commercial paper or a portion of an issue of debt securities which are part of an issue to the public shall not be

considered the making of a loan.

4. Purchase or sell real estate (including limited partnership interests but excluding securities secured by real estate or interests therein), interests in oil, gas or mineral leases, commodities or commodity contracts in the ordinary course of business (each Fund reserves the freedom of action to hold and to sell real estate acquired as a result of the ownership of securities by such Fund).

5. Issue any senior security (as that term is defined in the Investment Company Act of 1940) if such issuance is specifically prohibited by the Investment Company Act of 1940 or the rules and regulations promulgated thereunder, except as appropriate to evidence a debt incurred without violating Investment Restriction No. 2 as stated in the Funds' Prospectus regarding borrowing.

6. Concentrate its investments in any particular industry (excluding obligations of the U.S. Government, obligations of domestic banks, and repurchase agreements), but if it is deemed appropriate for the achievement of its investment objective, up to 25% of the assets of the Fund (taken at market value at the time of each investment) may be invested in any one industry; provided, that nothing in this investment restriction shall affect the Fund's ability to invest a portion or all of its assets in a corresponding investment company with the same investment objective and policies.

The Tax-Exempt Money Fund may not:

1. Purchase the securities of any issuer if as a result more than 5% of the value of the Fund's total assets would be invested in the securities of such issuer, except that up to 25% of the value of the Fund's total assets may be invested without regard to this 5% limitation. Securities issued or guaranteed by the United States Government or its agencies or instrumentalities are not subject to this investment limitation. For purposes of this limitation and the Fund's policy on concentration of investments set forth in the Prospectus, a governmental agency, authority, instrumentality or other political subdivision is deemed to be an issuer, separate from the government creating such subdivision, if the security issued by such subdivision is backed only by the assets and revenues of the subdivision, and a guarantee of a security is not deemed to be a security issued by the guarantor, provided that no more than 10% of the value of the Fund's total assets is invested in securities issued or guaranteed by such guarantor.

2. Underwrite any issue of securities, except to the extent that the purchase of securities directly from the issuer thereof in accordance with the Fund's investment objective, policies and limitations may be deemed to be underwriting.

3. Purchase or sell real estate, except that the Fund may, to the extent appropriate to its investment objective, invest in securities issued by companies which invest in real estate or interests therein.

4. Purchase securities on margin, make short sales of securities or maintain a short position.

5. Write or sell puts, calls, straddles, spreads or combinations thereof.

6. Purchase or sell commodities or commodity contracts, or invest in oil, gas or mineral exploration or development programs, except that the Fund may, to the extent appropriate to its investment objective, invest in securities issued by companies which purchase or sell commodities or commodity contracts or which invest in such programs.

7. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization.

8. Make loans, except that the Fund may purchase or hold debt obligations in accordance with its investment objective, policies and limitations, and may enter into repurchase agreements with respect to securities.

9. Purchase any securities which would cause 25% or more of the value of its total assets at the time of such purchase to be invested in the

securities of one or more issuers conducting their principal business activities in the same industry; provided, however, that (a) there is no limitation with respect to investments in Municipal Securities or obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities; (b) although there is no limitation with respect to investments in certificates of deposit and bankers' acceptances issued by domestic branches of United States banks, no more than 10% of the total value of the Fund's assets at the time of purchase may be invested in certificates of deposit and bankers' acceptances issued by domestic branches of foreign banks and no more than 25% of the total value of the Fund's assets at the time of purchase may be invested in certificates of deposit and bankers' acceptances issued by domestic branches of foreign banks and foreign branches of domestic banks; (c) each utility service (such as gas, gas transmission, electric and telephone service) will be considered a single industry for purposes of this policy; and (d) wholly-owned finance companies will be considered to be in the industries of their parents if their activities are primarily related to financing the activities of their parents.

The California Tax-Exempt Money Market Fund may not:

1. Invest in industrial revenue bonds where the payment of principal and interest are the responsibility of a company (including its predecessors) with less than three years of continuous operation.

2. Purchase or sell commodity contracts, or invest in oil, gas or mineral exploration or development programs (however, the Fund may, to the extent appropriate to its investment objective, purchase publicly traded securities of companies engaging in whole or in part in such activities).

3. Purchase securities while its borrowings (including reverse repurchase agreements) are outstanding.

4. Write or sell puts, calls, straddles, spreads, or combinations thereof except that the Fund may acquire stand-by commitments with respect to its Municipal Securities.

5. Purchase any securities which would cause 25% or more of the Fund's total assets at the time of purchase to be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that this limitation shall not apply to Municipal Securities or governmental guarantees of Municipal Securities; and provided, further, that for the purpose of this limitation only, industrial development bonds that are backed only by the assets and revenues of a non-governmental user shall not be deemed to be Municipal Securities.

\* \* \*

If a percentage restriction is satisfied at the time of investment, a later increase or decrease in such percentage resulting from a change in asset value will not constitute a violation of such restriction.

For purposes of the Prime Value Fund's investment limitation concerning industry concentration, U.K. Building Societies will be considered to be in the banking industry.

The Prime Value Fund will not invest more than 5% of its net assets (at the time of purchase) in instruments issued by U.K. Building Societies

For purposes of Investment Limitation P 1 relating to the Prime Fund in such Fund's Prospectus, Investment Limitation P 1 relating to the Prime Value Fund in such Fund's Prospectuses, Investment Limitation P 6 relating to the Government Fund and Treasury Only Fund in this Statement of Additional Information, Investment Limitation P 9 relating to the Tax-Exempt Money Fund in this Statement of Additional Information and Investment Limitation P 5 relating to the California Tax-Exempt Money Market Fund only in this Statement of Additional Information, these Funds treat, in accordance with the current views of the staff of the Securities and Exchange Commission and as a matter of non-fundamental policy that may be changed without a vote of shareholders, all supranational organizations as a single industry and each foreign government (and all of its agencies) as a separate industry.

For purposes of Investment Limitation P 6 of this Statement of Additional Information with respect to the Prime Fund, Treasury Fund, California



Tax-Exempt Money Market Fund and Prime Value Fund, Investment Limitation P 3 of this Statement of Additional Information with respect to the Government Fund and Treasury Only Fund and Investment Limitation P 8 of this Statement of Additional Information with respect to the Tax-Exempt Money Fund, the Funds may hold debt instruments whether such instruments are part of a public offering or privately negotiated.

In order to permit the sale of shares in certain states, a Fund may make commitments more restrictive than the investment policies and limitations described above. To permit the sale of the shares of the Funds in Texas, the Company has agreed to the following additional restrictions:

1. The Funds will not invest in oil, gas or mineral leases.
2. The Funds will not invest more than 5% of their net assets in warrants (valued at the lower of cost or market), of which not more than 2% may be warrants which are not listed on the New York or American Stock Exchanges.
3. The Funds will not invest in real estate limited partnerships.
4. Any Horizon Shares of the Funds (other than the Prime Value Fund) offered for sale to Texas residents will generally be issued for cash only. Transactions involving the issuance of Horizon Shares of such Funds for securities or assets other than cash will meet the requirements of Section 123.2(4) of the Texas Blue Sky Regulations.

Should a Fund determine that these commitments or any other commitments are no longer in the best interests of the Fund, it will revoke such commitments by terminating sales of its shares in the state involved.

#### PURCHASE AND REDEMPTION OF SHARES

##### In General

The Company or its transfer agent may require any information reasonably necessary to evidence that a redemption has been duly authorized. Under the Investment Company Act of 1940 any of the Funds may suspend the right of redemption or postpone the date of payment upon redemption for any period during which the New York Stock Exchange is closed (other than customary weekend and holiday closings), during which trading on such Exchange is restricted, during which an emergency exists (as determined by the Securities and Exchange Commission by rule or regulation) as a result of which disposal or valuation of portfolio securities is not reasonably practicable or for such other periods as the Securities and Exchange Commission may permit. A Fund may also suspend or postpone the recordation of the transfer of its shares upon the occurrence of any of the foregoing conditions.

In addition a Fund may redeem shares involuntarily in certain instances if such redemption is appropriate to carry out the Company's responsibilities under the Investment Company Act of 1940. If the Board of Directors determines that conditions exist which make payment of redemption proceeds wholly in cash unwise or undesirable, a Fund may make payment wholly or partly in readily-marketable securities or other property. In such an event a shareholder would incur transaction costs in selling the securities or other property. See "Net Asset Value" below for an example of when such form of payment might be appropriate. The Company has committed that it will pay all redemption requests by a shareholder of record in cash, limited in amount with respect to each shareholder during any ninety-day period to the lesser of \$250,000 or 1% of the Company's net asset value at the beginning of such period.

Any institution purchasing shares on behalf of separate accounts will be required to hold the shares in a single nominee name (a "Master Account"). Institutions investing in more than one Fund must maintain a separate Master Account for each Fund. Institutions may arrange with the Funds' transfer agent for certain sub-accounting services (such as purchase, redemption and dividend record keeping).

##### National Banking Regulations

The Comptroller of the Currency has ruled that a national bank may invest in shares of an investment company to the extent that the portfolio of

such company consists of investments in which the bank might invest directly. As a national bank could invest directly without limitation in general obligations of the U.S. Treasury and the portfolios of the Treasury Fund and Treasury Only Fund are limited to such investments, national banks may acquire shares of the Treasury Fund and Treasury Only Fund without limitation.

In addition, the regulations of the Comptroller of the Currency provide that funds held in a fiduciary capacity by a national bank approved by the Comptroller to exercise fiduciary powers must be invested in accordance with the instrument establishing the fiduciary relationship and local law. In the opinion of the Company's counsel, the purchase of shares of the Funds by such national banks acting on behalf of their fiduciary accounts is not contrary to applicable regulations if consistent with the particular account and proper under the law governing the administration of the account. Prospective investors should consult their advisers regarding the law applicable to their purchase of shares.

#### Net Asset Value

In General. Each Fund's net asset value per share is calculated by dividing the total value of the assets belonging to the Fund, less the value of any liabilities applicable to the Fund, by the total number of outstanding shares of that Fund. Each Fund's net asset value is calculated separately from each other Fund's net asset value. "Assets belonging to" a Fund consist of the consideration received upon the issuance of shares representing interests in the Fund together with all income, earnings, profits and proceeds derived from the investment thereof, any proceeds from the sale, exchange or liquidation of such investments, any funds or payments derived from any re-investment of such proceeds, and a portion of any general assets of the Company not belonging to a particular Fund. Each Fund is charged with the direct expenses of that Fund and with a share of the general expenses of the Company. The determinations by the Board of Directors as to direct and allocable expenses and the allocable portion of general assets with respect to the various portfolios are conclusive. The expenses that are charged to a Fund are borne equally by each share of the Fund except for the payments to Service Organizations that are borne solely by Horizon Service Shares and certain payments that are borne solely by Pacific Horizon Shares as described in the Prospectuses for such Shares.

A "business day" for purposes of processing share purchases and redemptions received by the Transfer Agent at its Kansas City office is a day on which the New York Stock Exchange is open for trading, except a "business day" does not include Martin Luther King, Jr. Day, Columbus Day or Veteran's Day. In 1995 the holidays on which the New York Stock Exchange is closed are: President's Day, Good Friday, Memorial Day (observed), Independence Day, Labor Day, Thanksgiving Day and Christmas.

Amortized Cost Method. The Funds use the amortized cost method of valuation in computing the net asset value of their shares for purposes of sales and redemptions. Under this method a Fund values each of its portfolio securities at cost on the date of purchase and thereafter assumes a constant proportionate amortization of any discount or premium until maturity of the security. As a result the value of a portfolio security for purposes of determining net asset value normally does not change in response to fluctuating interest rates. While the amortized cost method seems to provide certainty in portfolio valuation it may result in periods during which values, as determined by amortized cost, are higher or lower than the amount such Fund would receive if it sold its portfolio securities. The market value of the securities in the Funds can be expected to vary inversely with changes in prevailing interest rates. Thus, if interest rates have increased from the time a security was purchased, such security, if sold, might be sold at a price less than its amortized cost. Similarly, if interest rates have declined from the time a security was purchased, such security, if sold, might be sold at a price greater than its amortized cost. In either instance, if the security is held to maturity, no gain or loss will be realized.

In connection with their use of amortized cost valuation, the Funds limit the dollar-weighted average maturity of their portfolios to not more than 90 days and do not purchase any instrument with a remaining maturity of greater than 397 calendar days. The Company's Board of Directors has also established, pursuant to rules promulgated by the Securities and Exchange Commission, procedures that are intended to stabilize each Fund's net asset value per share

for purposes of sales and redemptions at \$1.00. Such procedures include the determination, at such intervals as the Board deems appropriate, of the extent, if any, to which a Fund's net asset value per share calculated by using available market quotations deviates from \$1.00 per share. In the event such deviation exceeds 1/2 of 1% the Board will promptly consider what action, if any, should be initiated. If the Board believes that the amount of any deviation may result in material dilution or other unfair results to investors or existing shareholders, it will take such steps as it considers appropriate to eliminate or reduce to the extent reasonably practicable any such dilution or unfair results. These steps may include selling portfolio instruments prior to maturity, shortening a Fund's average portfolio maturity, withholding or reducing dividends, reducing the number of a Fund's outstanding shares without monetary consideration or determining net asset value per share by using available market quotations. If a Fund reduces the number of its outstanding shares without monetary consideration it will mail written notice to shareholders at least three business days before the redemption and in the notice will state the reason for the redemption and the fact that the redemption may result in a capital loss to shareholders.

The Funds' administrator, Concord Holding Corporation (the "Administrator"), may use a pricing service to value certain portfolio securities where the prices provided are believed by the Administrator pursuant to guidelines adopted by the Board of Directors to reflect the fair value of such securities. In valuing a Fund's securities, the pricing service would normally take into consideration such factors as yield, risk, quality, maturity, type of issue, trading characteristics, special circumstances and other factors it deems relevant in determining valuations for normal institutional-sized trading units of debt securities and would not rely on quoted prices. The methods used by the pricing service and the valuations so established will be utilized under the general supervision of the Company's Board of Directors. Additionally, in determining market-based net asset value per share all portfolio securities for which market quotations (or appropriate substitutes that reflect current market conditions) are not readily available shall be valued at their fair value as determined by the valuation committee in accordance with procedures established by the Board of Directors.

#### MANAGEMENT OF THE FUNDS

##### Directors and Officers

The directors and officers of the Company, their addresses, ages, and principal occupations during the past five years are:

<TABLE>

<CAPTION>

Name and Address <S>	Age <C>	Position with Company <C>	Principal Occupations <C>
Thomas M. Collins* McDermott & Trayner 225 S. Lake Avenue Suite 410 Pasadena, CA 91101-3005	61	President and Chairman of the Board	Of counsel, law firm of McDermott & Trayner; Partner of the law firm of Musick, Peeler & Garrett (until April, 1993); Trustee, Master Investment Trust Series I and Master Investment Trust, Series II (registered investment companies); former Director, Bunker Hill Income Securities, Inc. through 1991 (registered investment company).
Douglas B. Fletcher Fletcher Capital Advisors Incorporated 4 Upper Newport Plaza Suite 100 Newport Beach, CA 92660- 2629	70	Vice Chairman of the Board	Chairman of the Board and Chief Executive Officer, Fletcher Capital Advisors, Incorporated, (registered investment adviser) 1991 to date; Partner, Newport Partners (private venture capital

<p>Robert E. Greeley Page Mill Asset Management 433 California Street Suite 900 San Francisco, CA 94104</p>	<p>60</p>	<p>Director</p>	<p>Chairman, Page Mill Asset Management (a private investment company) since 1991; Manager, Corporate Investments, Hewlett Packard Company from 1979 to 1991; Director, Morgan Grenfell Small Cap Fund (since 1986); former director, Bunker Hill Income Securities, Inc. (since 1989) (registered investment company); Trustee, Master Investment Trust, Series I and Master Investment Trust, Series II (registered investment companies); former Trustee, SunAmerica Fund Group (previously Equitec Siebel Fund Group) from 1984 to 1992.</p>
<p>Kermit O. Hanson 17760 14th Ave., N.W. Seattle, WA 98177</p>	<p>79</p>	<p>Director</p>	<p>Vice Chairman of the Advisory Board, 1988 to date, Executive Director, 1977 to 1988, Pacific Rim Bankers Program (a non-profit educational institution); Dean Emeritus, 1981 to date, Dean, 1964-81, Graduate School of Business Administration, University of Washington; Director, Washington Federal Savings &amp; Loan Association; Trustee, Seafirst Retirement Funds (registered investment company).</p>
<p>Cornelius J. Pings Association of American Universities One DuPont Circle Suite 730 Washington, DC 20036</p>	<p>66</p>	<p>Director</p>	<p>President, Association of American Universities, February 1993 to date; Provost, 1982 to January 1993, Senior Vice President for Academic Affairs, 1981 to January 1993, University of Southern California.</p>
<p>Kenneth L. Trefftz 11131 Briarcliff Drive San Diego, CA 92131-1329</p>	<p>83</p>	<p>Director</p>	<p>Private Investor; formerly Distinguished Emeritus Professor of Finance and Chairman of the Department of Finance and Business Economics of the Graduate School of</p>

Richard E. Stierwalt 125 West 55th Street New York, NY 10019	40	Executive Vice President	Business of the University of Southern California; former Director, Metro Goldwyn Mayer, Inc.; Director, Fremont General Corporation (insurance and financial services holding company); Director, Source Capital, Inc. (closed-end investment company); Director of three open-end investment companies managed by First Pacific Advisors, Inc.; formerly Chairman of the Board of Directors (or Trustees) of nineteen investment companies managed by American Capital Asset Management, Inc.
William B. Blundin 125 West 55th Street New York, NY 10019	57	Executive Vice President	Chairman of the Board and Chief Executive Officer, July 1993 to date, prior thereto Senior Director, Managing Director and Chief Executive Officer of the Administrator and Distributor, February 1987 to July 1993; President, Master Investment Trust, Series I, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); First Vice President, Trust Operation Administration, Security Pacific National Bank, 1983-1987.
Ann E. Bergin 125 West 55th Street New York, NY 10019	35	Vice President	Vice Chairman, July 1993 to date, prior thereto Director and President of the Administrator and Distributor, February 1987 to July 1993; Executive Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Senior Vice President, Shearson Lehman Brothers (a securities firm), 1978-1987.  Senior Vice President, October 1994 to date, prior thereto First Vice President of the Administrator, February 1993 to October 1994; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Vice President of the Administrator, August 1991

			to February 1993; Assistant Vice President, The Dreyfus Corporation, December 1982 to August 1991.
Susan L. West 125 West 55th Street New York, NY 10019	37	Assistant Vice President	Chief Operating Officer, July 1993 to date, prior thereto Executive Vice President of the Administrator, May 1987 to July 1993; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Assistant Vice President, Fund Administration and Operations, The Vanguard Group, October 1981 to May 1987.
Iringa McKay 7863 Girard Avenue Suite 306 La Jolla, CA 92037	35	Assistant Vice President	Senior Vice President, July 1993 to date, prior thereto First Vice President of the Administrator and Distributor, November 1988 to July 1993; Vice President, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Regional Vice President, Continental Equities, June 1987 to November 1988; Assistant Wholesaler, VMS Realty Partners (a real estate limited partnership), May 1986 to June 1987.
Richard A. Fabietti 125 West 55th Street New York, NY 10019	36	Treasurer	Senior Vice President of the Administrator and Distributor, July 1987 to date; Treasurer, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies); Assistant Controller- Mutual Funds, Alliance Capital Management Corp., March 1986 to July 1987.
Martin G. Flanigan 125 West 55th Street New York, NY 10019	31	Assistant Treasurer	Vice-President of the Administrator and Distributor, 1987 to date; Assistant Treasurer, Master Investment Trust, Series II and Seafirst Retirement Funds (registered investment companies).
W. Bruce McConnell, III 1345 Chestnut Street Philadelphia National Bank Building, Suite 1100 Philadelphia, PA 19107	52	Secretary	Partner of the law firm Drinker Biddle & Reath; Secretary, Master Investment Trust, Series II and Seafirst

Retirement  
Funds (registered investment companies).

Linda Mahon  
125 West 55th Street  
New York, NY 10019

38

Assistant  
Secretary

Vice President of  
the Administrator and  
Distributor, 1994  
to date; Assistant  
Secretary, Master  
Investment Trust, Series  
II and Seafirst Retirement  
Funds (registered  
investment companies);  
Corporate Secretary of J.  
& W. Seligman & Co.  
Incorporated, 1991-1994;  
Vice President of Paribas  
Asset Management, Inc.  
1989-1991.

George O. Martinez  
1900 East Dublin-Granville Road  
Columbus, OH 43229

36

Assistant  
Secretary

Senior Vice President  
and Director of Legal  
and Compliance Services,  
BISYS Fund Services, since  
April 1995; prior thereto,  
Vice President and  
Associate General Counsel,  
Alliance Capital  
Management L.P.

\* Mr. Collins is an "interested director" of the Company as defined in the  
Investment Company Act of 1940.

The Audit Committee of the Board is comprised of all directors and  
is chaired by Dr. Trefftzs. The Board does not have an Executive Committee.

Each director is entitled to receive an annual fee of \$25,000 plus  
\$1,000 for each day that a director participates in all or a part of a Board  
meeting; Mr. Collins receives an additional \$40,000 per annum for his services  
as President; each member of a Committee of the Board is entitled to receive  
\$1,000 for each Committee meeting they participate in (whether or not held on  
the same day as a Board meeting); and each Chairman of a Committee of the Board  
shall be entitled to receive an annual retainer of \$1,000 for his services as  
Chairman of the Committee. The Funds, and each other Fund of the Company, pays  
its proportionate share of these amounts based on relative net asset values.

For the fiscal year ended February 28, 1995, the Company paid or  
accrued for the account of its directors as a group for services in all  
capacities a total of \$334,168; of this amount, the following amounts of  
directors' compensation were allocated to the following Funds: Treasury Fund -  
\$22,408; Prime Fund - \$23,318; Government Fund - \$23,093; Treasury Only Fund -  
\$22,179; Tax-Exempt Money Fund - \$21,538; California Tax-Exempt Money Market  
Fund - \$23,388 and Prime Value Fund - \$22,999. Each director is also reimbursed  
for out-of-pocket expenses incurred as a director. Drinker Biddle & Reath, of  
which Mr. McConnel is a partner, receives legal fees as counsel to the Company.  
As of the date of this Statement of Additional Information, the directors and  
officers of the Company, as a group, own less than 1% of the outstanding shares  
of each of the Company's investment portfolios.

Under a retirement plan approved by the Board of Directors,  
including a majority of its directors who are not "interested persons" of the  
Company, a director who dies or resigns after five years of service is entitled  
to receive ten annual payments each equal to the greater of: (i) 50% of the  
annual director's retainer that was payable by the Company during the year of  
his/her death or resignation, or (ii) 50% of the annual director's retainer then  
in effect for directors of the Company during the year of such payment. A  
director who dies or resigns after nine years of service is entitled to receive  
ten annual payments each equal to the greater of: (i) 100% of the annual  
director's retainer that was payable by the Company during the year of his/her  
death or resignation, or (ii) 100% of the annual director's retainer then in  
effect for directors of the Company during the year of such payment. Further,

the amount payable each year to a director who dies or resigns is increased by \$1,000 for each year of service that the director provided as Chairman of the Board.

Years of service for purposes of calculating the benefit described above are based upon service as a director or Chairman after February 28, 1994. Retirement benefits in which a director has become vested may not be reduced by later Board action.

In lieu of receiving ten annual payments, a director may elect to receive substantially equivalent benefits through a single-sum cash payment of the present value of such benefits paid by the Company within 45 days of the death or resignation of the director. The present value of such benefits is to be calculated (i) based on the retainer that was payable by the Company during the year of the director's death or resignation (and not on any retainer payable to directors thereafter), and (ii) using the interest rate in effect as of the date of the director's death or resignation by the Pension Benefit Guaranty Corporation (or any successor thereto) for valuing immediate annuities under terminating defined benefit pension plans. A director's election to receive a single sum must be made in writing within the 30 calendar days after the date the individual is first elected as a director.

In addition to the foregoing, the Board of Directors may, in its discretion and in recognition of a director's period of service before March 1, 1994 as a director and possibly as Chairman, authorize the Company to pay a retirement benefit following the director's death or resignation (unless the director has vested benefits as a result of completing nine years of service). Any such action shall be approved by the Board and by a majority of the directors who are not "interested persons" of the Company within 120 days following the director's death or resignation and may be authorized as a single sum cash payment or as not more than ten annual payments (beginning the first anniversary of the director's date of death or resignation and continuing for one or more anniversary date(s) thereafter).

The obligation of the Company to pay benefits to a former director is neither secured nor funded by the Company but shall be binding upon its successors in interest. The payment of benefits under the retirement plan has no priority or preference over the lawful claims of the Company's creditors or shareholders, and the right to receive such payments is not assignable or transferable by a director (or former director) other than by will, by the laws of descent and distribution, or by the director's written designation of a beneficiary.

The following chart provides certain information about the director/trustee fees of the Company as of February 28, 1995.

NAME OF PERSON/ POSITION	AGGREGATE COMPENSATION FROM THE COMPANY	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF FUND EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT	TOTAL COMPENSATION FROM REGISTRANT AND FUND COMPLEX* PAID TO DIRECTORS
Thomas M. Collins President and Chairman of the Board	\$100,000	\$0	\$0	\$110,000
Douglas B. Fletcher Vice Chairman of the Board	\$57,500	\$0	\$0	\$57,500
Robert E. Greeley** Director	\$57,500	\$0	\$0	\$65,781
Kermit O. Hanson Director	\$57,500	\$0	\$0	\$63,500
Cornelius J. Pings Director	\$57,500	\$0	\$0	\$57,500
Kenneth L. Trefftz Director	\$57,500	\$0	\$0	\$57,500

\* The "Fund Complex" consists of the Company, Seafirst Retirement Funds, Master Investment Trust, Series I and Master Investment Trust, Series II.



\*\* Mr. Greeley became a director of the Company on April 25, 1994.

#### Investment Adviser

Bank of America is the successor by merger to Security Pacific National Bank ("Security Pacific"), which previously served as investment adviser to each of the Funds, other than the Government and Treasury Only Funds and the Prime Value Fund, since the commencement of their operations. In the investment advisory agreement, Bank of America has agreed to provide investment advisory services as described in the Prospectuses. Bank of America has also agreed to pay all expenses incurred by it in connection with its activities under its agreement other than the cost of securities, including brokerage commissions, if any, purchased for the Company. In rendering its advisory services, Bank of America may utilize Bank officers from one or more of the departments of the Bank which are authorized to exercise the fiduciary powers of Bank of America with respect to the investment of trust assets. In some cases, these officers may also serve as officers, and utilize the facilities, of wholly-owned subsidiaries or other affiliates of Bank of America or its parent corporation. For the services provided and expenses assumed pursuant to the investment advisory agreement, the Company has agreed to pay Bank of America fees, accrued daily and payable monthly, at the following annual rates, with respect to the Funds (other than the Prime Value Fund): .10% of the first \$3 billion of each Fund's net assets, plus .09% of the next \$2 billion of each Fund's net assets, plus .08% of each Fund's net assets over \$5 billion. With respect to the Prime Value Fund, the Company has agreed to pay Bank of America fees, accrued daily and payable monthly, at the following annual rates: .10% of the first \$7 billion of the Fund's net assets, plus .09% of the next \$3 billion of the Fund's net assets, plus .08% of the Fund's net assets over \$10 billion. From time to time, Bank of America may waive fees or reimburse the Company for expenses voluntarily or as required by certain state securities laws.

For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, Bank of America (and Securities Pacific prior to April 22, 1992) were paid in the aggregate, pursuant to the investment advisory agreements applicable to them, advisory fees (net of waivers) of \$8,106,253, \$11,293,545, and \$2,330,203, respectively, by the Prime Fund, \$2,841,285, \$2,717,321, and \$2,140,125, respectively, by the Treasury Fund and \$466,339, \$472,766, and \$501,956, respectively, by the Tax-Exempt Money Fund. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, Bank of America (and Security Pacific prior to April 22, 1992) were paid in the aggregate, pursuant to the investment advisory agreements applicable to them, advisory fees (net of waivers and expense reimbursements) of \$22,306, \$269,869, and \$301,964, respectively, by the California Tax-Exempt Money Market Fund. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, Bank of America (and Security Pacific prior to April 22, 1992) did not effect any fee waivers or expense reimbursements with respect to the Treasury Fund but did reimburse expenses or waive fees to the Prime Fund, in the aggregate, in the amount of \$0, \$367,233, and \$920,627, and the Tax-Exempt Money Fund, in the amount of \$3,692, \$23,524, and \$11,611, respectively. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, Bank of America (and Security Pacific prior to April 22, 1992) in the aggregate, waived fees and reimbursed expenses with respect to the California Tax-Exempt Money Market Fund in the amount of \$82,350, \$22,998, and \$0, respectively. For the period March 16, 1993 (commencement of operations) through February 28, 1994 and the fiscal year ended February 28, 1995, Bank of America was paid advisory fees (net of waivers) with respect to the Prime Value Fund of \$2,840 and \$289,793, respectively. For the period ended February 28, 1994, Bank of America waived fees of \$116,991 and reimbursed expenses to the Prime Value Fund in the amount of \$75,521, and for the fiscal year ended February 28, 1995, Bank of America waived fees of \$121,169 and reimbursed expenses to the Prime Value Fund in the amount of \$4,439.

For the fiscal year ended February 28, 1994, the Government Fund and Treasury Only Fund paid Bank of America investment advisory fees (net of fee waivers) of \$877,515 and \$68,888, respectively. For that same period Bank of America waived fees and reimbursed the Government Fund and Treasury Only Fund in the amounts of \$6,537 and \$127,607, respectively. For the fiscal year ended February 28, 1995, the Government Fund and Treasury Only Fund paid Bank of America investment advisory fees (net of fee waivers or expense reimbursements) of \$321,634 and \$293,305, respectively. For that same period, Bank of America waived fees of \$8,313 for the Treasury Only Fund and waived fees of \$313,740 and

reimbursed expenses to the Government Fund in the amount of \$14,000. For the fiscal year ended March 31, 1992 and the period April 1, 1992 through February 28, 1993, the Predecessor Treasury Only Funds bore investment advisory fees pursuant to the investment advisory agreement then in effect of \$70,579 and \$61,676, respectively, and the Predecessor Government Funds bore investment advisory fees of \$361,035 and \$308,729, respectively. All of these fees were paid to Seattle Capital Management Company (the "Former Adviser"), which is a wholly-owned, indirect subsidiary of BankAmerica Corporation. For the periods and fiscal year referenced above, the Former Adviser waived additional investment advisory fees of \$194,089 and \$169,608, respectively, with respect to the Predecessor Treasury Only Funds, and \$227,281 and \$154,364, respectively, with respect to the Predecessor Government Funds.

The Company's investment advisory agreement for the Funds provides that Bank of America shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Company in connection with the performance of the investment advisory agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or negligence in the performance of its duties or from reckless disregard by it of its duties and obligations thereunder.

#### The Glass-Steagall Act and Proposed Legislation

The Glass-Steagall Act, among other things, prohibits banks from engaging in the business of underwriting securities, although national and state-chartered banks generally are permitted to purchase and sell securities upon the order and for the account of their customers. In 1971, the United States Supreme Court held in *Investment Company Institute v. Camp* that the Glass-Steagall Act prohibits a bank from operating a fund for the collective investment of managing agency accounts. Subsequently, the Board of Governors of the Federal Reserve System (the "Board") issued a regulation and interpretation to the effect that the Glass-Steagall Act and such decision forbid a bank holding company registered under the Federal Bank Holding Company Act of 1956 (the "Holding Company Act") or any non-bank affiliate thereof from sponsoring, organizing or controlling a registered, open-end investment company continuously engaged in the issuance of its shares, but do not prohibit such a holding company or affiliate from acting as investment adviser, transfer agent and custodian to such an investment company. In 1981, the United States Supreme Court held in *Board of Governors of the Federal Reserve System v. Investment Company Institute* that the Board did not exceed its authority under the Holding Company Act when it adopted its regulation and interpretation authorizing bank holding companies and their non-bank affiliates to act as investment advisers to registered closed-end investment companies.

Bank of America believes that if the question were properly presented, a court should hold that Bank of America may perform the services for the Company contemplated by the investment advisory agreement, the Prospectuses, and this Statement of Additional Information without violation of the Glass-Steagall Act or other applicable banking laws or regulations. It should be noted, however, that there have been no cases deciding whether a bank may perform services comparable to those performed by Bank of America and future changes in either federal or state statutes and regulations relating to permissible activities of banks or trust companies and their subsidiaries or affiliates, as well as further judicial or administrative decisions or interpretations of present and future statutes and regulations, could prevent Bank of America from continuing to perform such services for the Company or from continuing to purchase Company shares for the accounts of its customers.

For a discussion of the Glass-Steagall Act in connection with the Company's Shareholder Services Plan, see "Shareholder Services Plan" in the Prospectuses for Horizon Service Shares.

On the other hand, as described herein, the Funds are currently distributed by the Distributor, and the Administrator, its parent, provides the Company with administrative services. If current restrictions under the Glass-Steagall Act preventing a bank from sponsoring, organizing, controlling or distributing shares of an investment company were relaxed, the Company expects that Bank of America would consider the possibility of offering to perform some or all of the services now provided by the Administrator or the Distributor. From time to time, legislation modifying such restriction has been introduced in Congress which, if enacted, would permit a bank holding company to establish a

non-bank subsidiary having the authority to organize, sponsor and distribute shares of an investment company. It is not possible, of course, to predict whether or in what form such legislation might be enacted or the terms upon which Bank of America or such a non-bank affiliate might offer to provide services for consideration by the Company's Board of Directors.

Administrator

Concord Holding Corporation (the "Administrator"), with principal offices at 125 West 55th Street, New York, New York 10019, is a wholly-owned subsidiary of The BISYS Group, Inc. The Administrator also serves as administrator to several other investment companies.

The Administrator provides administrative services for the Funds as described in their Prospectuses pursuant to a Basic Administrative Services Agreement. The agreement will continue in effect with respect to each Fund until October 31, 1995 and thereafter will be extended with respect to each Fund for successive periods of two years, provided that each such extension is specifically approved (a) by vote of a majority of those members of the Company's Board of Directors who are not interested persons of any party to the agreement, cast in person at a meeting called for the purpose of voting on such approval, and (b) the Company's Board of Directors or by vote of a majority of the outstanding voting securities of such Fund. The agreement is terminable during any term for cause at any time by the Company's Board of Directors, "cause" being defined and limited for this purpose to mean willful misfeasance, bad faith or negligence by the Administrator in the performance of its obligations and duties under the agreement. The Company's Board of Directors may terminate the agreement at the end of any term without cause upon 60 days' prior written notice to the Administrator.

For its services under the Basic Administrative Services Agreement, the Administrator is entitled to receive an administration fee, accrued daily and payable monthly, at the following annual rates: .10% of the first \$7 billion of each Fund's net assets, plus .09% of the next \$3 billion of each Fund's net assets, plus .08% of each Fund's net assets over \$10 billion. From time to time, the Administrator may waive fees or reimburse the Company for expenses, either voluntarily or as required by certain state securities laws.

For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995 the Administrator was paid, pursuant to the administration agreement then in effect, administration fees (net of waivers) of \$8,835,608, \$12,158,419, and \$2,366,035, respectively, by the Prime Fund, \$2,845,014, \$2,717,606, and \$2,140,125, respectively, by the Treasury Fund and \$466,339, \$472,766, and \$501,956, respectively, by the Tax-Exempt Money Fund. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, the Administrator was paid, pursuant to the administration agreement then in effect, administrative fees (net of waivers) of \$104,656, \$269,869, and \$301,618, respectively, by the California Tax-Exempt Money Market Fund. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, the Administrator did not effect any fee waivers or expense reimbursements with respect to the Treasury Fund but did reimburse the Prime Fund and Tax-Exempt Money Fund for expenses or waive fees in the amount of \$0, \$381,513 and \$949,233 and \$3,692, \$23,524, and \$11,611, respectively. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995 aggregate fee waivers and expense reimbursements by the Administrator with respect to the California Tax-Exempt Money Market Fund were \$0, \$22,998, and \$0, respectively. For the period March 16, 1993 (commencement of operations) through February 28, 1994, the Administrator was paid administration fees (net of fee waivers) with respect to the Prime Value Fund of \$2,840. For this same period the Administrator waived fees to the Prime Value Fund in the amount of \$116,991. For the fiscal year ended February 28, 1995, the Administrator was paid administration fees (net of fee waivers) with respect to the Prime Value Fund of \$289,793. For the same period the Administrator waived fees to the Prime Value Fund in the amount of \$121,169.

For the fiscal year ended February 28, 1994, the Government Fund and Treasury Only Fund paid the Administrator (net of fee waivers), \$877,515 and \$68,888, respectively. For this same period the Administrator waived fees due from the Government Fund and Treasury Only Fund in the amounts of \$6,537 and \$127,607, respectively and reimbursed the Funds \$0 and \$0, respectively. For the fiscal year ended February 28, 1995, the Government Fund and Treasury Only Fund paid the Administrator (net of fee waivers), \$463,641 and \$293,305,

respectively. For this same period the Administrator waived fees due from the Government Fund and Treasury Only Fund in the amounts of \$185,733 and \$8,313, respectively and reimbursed the Funds \$0 and \$0, respectively. For the fiscal year ended March 31, 1992 and the fiscal period April 1, 1992 through February 28, 1993, pursuant to the administration agreement then in effect, Signature Broker-Dealer Services, Inc., the former administrator of the Predecessor Government and Treasury Only Funds (the "Former Administrator"), accrued direct and indirect administrative fees of \$252,708 and \$187,981, respectively, with respect to the Predecessor Government Fund of First Cash Funds of America and \$126,430 and \$117,319, respectively, with respect to the Predecessor Treasury Only Fund of First Cash Funds of America.

If total expenses borne by any Fund in any fiscal year exceed the expense limitations imposed by applicable state securities regulations, the Company may deduct from the payments to be made with respect to such Fund to Bank of America and the Administrator, respectively, or Bank of America and the Administrator each will bear, the amount of such excess to the extent required by such regulations. Such amount, if any, will be estimated and accrued daily and paid on a monthly basis. As of the date of this Statement of Additional Information, the most restrictive expense limitation that may be applicable to the Company limits aggregate annual expenses with respect to a Fund, including management and advisory fees but excluding interest, taxes, brokerage commissions, and certain other expenses, to 2-1/2% of the first \$30 million of its average daily net assets, 2% of the next \$70 million and 1-1/2% of its remaining average daily net assets. During the course of the Company's fiscal year, the Administrator and Bank of America may assume certain expenses and/or not receive payment of fees of one or more of the Company's Funds, while retaining the ability to be reimbursed by such Funds for such amounts prior to the end of the fiscal year. This will have the effect of increasing yield to investors at the time such fees are not received or amounts are assumed and decreasing yield when such fees or amounts are reimbursed.

The Administrator will bear all expenses in connection with the performance of its services under the Basic Administrative Services Agreement for the Funds with the exception of fees charged by The Bank of New York for certain fund accounting services which are borne by the Funds. See "Custodian and Transfer Agent" below. Expenses borne by the Company include taxes, interest, brokerage fees and commissions, if any, fees of directors who are not officers, directors, partners, employees or holders of 5% or more of the outstanding voting securities of Bank of America or the Administrator or any of their affiliates, Securities and Exchange Commission fees and state securities qualification fees, advisory fees, administrative fees, fees payable to Shareholder Organizations, charges of custodians, transfer and dividend disbursing agents' fees, certain insurance premiums, outside auditing and legal expenses, costs of maintaining corporate existence, costs attributable to investor services, including without limitation telephone and personnel expenses, costs of preparing and printing prospectuses and statements of additional information for regulatory purposes, cost of shareholders' reports and corporate meetings and any extraordinary expenses.

The Basic Administrative Services Agreement provides that the Administrator shall not be liable for any error of judgment or mistake of law or any loss suffered by any Fund in connection with the matters to which the agreement relates, except a loss resulting from willful misfeasance, bad faith or negligence in the performance of the Administrator's duties or from the reckless disregard by the Administrator of its obligations and duties thereunder.

Bank of America has received an option entitling it to purchase approximately 4% of the Administrator's authorized common stock on or before December 31, 1998.

Distributor

The Distributor acts as the exclusive distributor of the shares of each of the Funds pursuant to a distribution agreement with the Company. Shares are sold on a continuous basis by the Distributor as agent, although the Distributor is not obliged to sell any particular amount of shares. No compensation is payable by the Funds to the Distributor for its distribution services. The distribution agreement shall continue in effect with respect to each Fund until October 31, 1995. Thereafter, if not terminated, the distribution agreement shall continue automatically for successive terms of one

year, provided that such continuance is specifically approved at least annually (a) by a vote of a majority of those members of the Board of Directors of the Company who are not parties to the distribution agreement or "interested persons" of any such party, cast in person at a meeting called for the purpose of voting on such approval, and (b) by the Board of Directors of the Company or by vote of a "majority of the outstanding voting securities" of the Funds as to which the distribution agreement is effective; provided, however, that the distribution agreement may be terminated by the Company at any time, without the payment of any penalty, by vote of a majority of the entire Board of Directors of the Company or by a vote of a "majority of the outstanding voting securities" of such Funds on 60 days' written notice to the Distributor, or by the Distributor at any time, without the payment of any penalty, on 90 days' written notice to the Company. This Agreement will automatically and immediately terminate in the event of its "assignment."

For the period June 4, 1990 (commencement of operations) through March 31, 1991 (fiscal year end), the fiscal year ended March 31, 1992 and the period April 1, 1992 through February 28, 1993, Signature Broker-Dealer Services, Inc., which also served as the former distributor of the Predecessor Government and Treasury Only Funds' shares, was paid \$2,814, \$17,167 and \$6,166, respectively by the Predecessor Government Fund of First Cash Funds of America and \$5,148, \$5,746 and \$2,680, respectively by the Predecessor Treasury Only Fund of First Cash Funds of America as reimbursement for expenses related to the distribution of such Predecessor Funds' shares. No such fees will be charged to the Government Fund or the Treasury Only Fund or to any other Fund.

#### Custodian and Transfer Agent

The Company has appointed The Bank of New York, 90 Washington Street, New York, New York 10286, as custodian and Concord Financial Services, Inc., a wholly-owned subsidiary of Concord Holding Corporation, located at First and Market Building, 1100 First Avenue, Suite 300, Pittsburgh, PA 15222, as transfer and dividend disbursing agent for the Prime, Treasury, Government, Treasury Only, Tax-Exempt Money and Prime Value Funds' Horizon Shares. DST Systems, Inc., 811 Main, Kansas City, Missouri 64105-2005 serves as transfer and dividend disbursing agent for the Funds' Horizon Service Shares; however, DST Systems, Inc. has appointed Concord Financial Services, Inc. as sub-transfer agent for certain Horizon Service Share accounts of the Prime, Treasury, Government, Treasury Only, Tax-Exempt Money, Prime Value and California Tax-Exempt Money Market Funds. The Bank of New York also provides the Company with certain accounting services pursuant to a fund accounting services agreement with the Administrator. Under the fund accounting services agreement, The Bank of New York has agreed to provide certain accounting, bookkeeping, pricing, and dividend and distribution calculation services with respect to the Company. The monthly fees charged by the bank under the fund accounting agreement are borne by the Funds. The Company and The Bank of New York have appointed Bank of America to act as sub-custodian pursuant to a Sub-Custodian Agreement. As sub-custodian of the Company's assets, Bank of America (i) maintains a separate account or accounts in the name of the Company, (ii) holds and disburses portfolio securities on account of the Company, (iii) makes receipts and disbursements of money on behalf of the Company, (iv) collects and receives all income and other payments and distributions on account of the Company's portfolio securities held by Bank of America, (v) responds to correspondence from security brokers and others relating to its duties, and (vi) makes periodic reports to the Company's Board of Directors concerning its duties thereunder. Under the Sub-Custodian Agreement, the Company will reimburse Bank of America for its costs and expenses in providing services thereunder. Bank of America is the successor to Security Pacific under the Sub-Custodian Agreement. For the fiscal years ended February 28, 1993, February 28, 1994 and February 28, 1995, Bank of America (and Securities Pacific prior to April 22, 1992), in their capacity as sub-custodian, did not hold any of the Company's assets and, accordingly, received no fees. For its services as transfer and dividend disbursing agent to the Horizon Shares of the Prime, Treasury, Government, Treasury Only, Tax-Exempt Money and Prime Value Funds, Concord Financial Services, Inc. receives a fee, payable monthly, at the annual rate of \$15,000 per Fund. Each Fund also reimburses Concord Financial Services, Inc. for any out-of-pocket expenses incurred as transfer and dividend disbursing agent. For the fiscal year ended February 28, 1995, Concord Financial Services, Inc. received \$27,063, \$19,693, \$17,873 and \$18,221 from the Prime Fund, Treasury Fund, Government Fund and Tax-Exempt Fund, respectively, for services as transfer and dividend disbursing agent for such funds Horizon Shares. No fees are currently charged for the sub-transfer agent services provided.

Bank of America and Seattle-First National Bank, an affiliate of Bank of America, previously provided transfer agency, custodial and fund accounting services for the Predecessor Government Funds and Predecessor Treasury Only Funds. For the period June 4, 1990 (commencement of operations) through March 31, 1991 (fiscal year end), the fiscal year ended March 31, 1992 and the period April 1, 1992 through February 28, 1993, Bank of America and Seattle-First National Bank received directly and indirectly for such services \$129,116, \$254,824 and \$200,624, respectively, with respect to the Predecessor Government Funds and \$38,761, \$114,630 and \$100,225, respectively, with respect to the Predecessor Treasury Only Funds.

## TAXES

The following is only a summary of certain additional considerations generally affecting the Funds and their shareholders that are not described in the Prospectuses for the Funds. No attempt is made to present a detailed explanation of the tax treatment of the Funds or their shareholders, and the discussion here and in the Prospectuses is not intended as a substitute for careful tax planning. Investors are advised to consult their tax advisers with specific reference to their own tax situations.

### All Funds

Each Fund will be treated as a separate corporate entity under the Internal Revenue Code of 1986, as amended (the "Code"), and intends to qualify as a "regulated investment company." By following this policy, each Fund expects to eliminate or reduce to a nominal amount the federal income taxes to which it may be subject. If for any taxable year a Fund of the Company does not qualify for the special federal tax treatment afforded regulated investment companies, all of the Fund's taxable income would be subject to tax at regular corporate rates (without any deduction for distributions to shareholders). In such event, the Fund's dividend distributions (including amounts derived from interest on Municipal Securities in the case of the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund) to shareholders would be taxable as ordinary income to the extent of the current and accumulated earnings and profits of the particular Fund and would be eligible for the dividends received deduction in the case of corporate shareholders.

Qualification as a regulated investment company under the Code requires, among other things, that each Fund distribute to its shareholders an amount equal to at least the sum of 90% of its investment company taxable income (if any) and 90% of its tax-exempt income (if any) net of certain deductions for each taxable year. In general, a Fund's investment company taxable income will be its taxable income, subject to certain adjustments and excluding the excess of any net long-term capital gain for the taxable year over the net short-term capital loss, if any, for such year. A Fund will be taxed on its undistributed investment company taxable income, if any.

A Fund will not be treated as a regulated investment company under the Code if 30% or more of the Fund's gross income for a taxable year is derived from gains realized on the sale or other disposition of securities and certain other investments held for less than three months (the "short-short test"). Interest (including original issue and market discount) received by a Fund upon maturity or disposition of a security held for less than three months will not be treated as gross income derived from the sale or other disposition of such security within the meaning of this requirement. However, any other income that is attributable to realized market appreciation will be treated as gross income from the sale or other disposition of securities for this purpose.

Any distribution of the excess of net long-term capital gains over net short-term capital losses is taxable to shareholders as long-term capital gains, regardless of how long the shareholder has held the distributing Fund's shares and whether such gains are received in cash or additional Fund shares. The Fund will designate such a distribution as a capital gain dividend in a written notice mailed to shareholders after the close of the Fund's taxable year.

Ordinary income of individuals is taxable at a maximum nominal rate of 39.6%; however, because of limitations on itemized deductions otherwise allowable and the phase-out of personal exemptions, the maximum effective

marginal rate of tax for some taxpayers may be higher. An individual's long-term capital gains are taxable at a maximum nominal rate of 28%. For corporations, long-term capital gains and ordinary income are both taxable at a maximum nominal rate of 35% (or at a maximum effective marginal rate of 39% in the case of corporations having taxable income between \$100,000 and \$335,000).

A 4% non-deductible excise tax is imposed on regulated investment companies that fail to currently distribute specified percentages of their ordinary taxable income for each calendar year and capital gain net income (excess of capital gains over capital losses). Each Fund intends to make sufficient distributions or deemed distributions of its ordinary taxable income and any capital gain net income prior to the end of each calendar year to avoid liability for this excise tax.

The Company will be required in certain cases to withhold and remit to the United States Treasury 31% of taxable dividends or gross sale proceeds realized paid to shareholders who have failed to provide a correct tax identification number in the manner required, who are subject to withholding by the Internal Revenue Service for failure to properly include on their return payments of taxable interest or dividends or who have failed to certify to the Company that they are not subject to backup withholding when required to do so or that are "exempt recipients."

At February 28, 1995 the Prime Fund, Treasury Fund, Government Fund, Treasury Only Fund, Tax-Exempt Money Fund California Tax-Exempt Money Market Fund, and Prime Value Fund had unused capital loss carryovers of approximately \$2,764,492 (of which \$22,098 will expire in fiscal 1999, \$1,171,786 will expire in fiscal 2002 and \$1,570,608 will expire in fiscal 2003), \$239,007 (which will expire in fiscal 2002), \$1,073,801 (of which \$129,811 will expire in fiscal 2002 and \$943,990 will expire in fiscal 2003), \$113,421 (of which \$21,276 will expire in fiscal 2002 and \$92,145 will expire in fiscal 2003), \$156,373 (of which \$35,348 will expire in fiscal 1997, \$16,664 will expire in fiscal 1998, \$14,011 will expire in fiscal 2000, \$71,218 will expire in fiscal 2002 and \$19,132 will expire in fiscal 2003) and \$12,116 (of which \$5,893 will expire in fiscal 2001, and \$6,223 will expire in fiscal 2002 and \$293,460 (of which \$3,571 will expire in fiscal 2002 and \$289,889 will expire in fiscal 2003), respectively, available for federal income tax purposes to be applied against future securities profits, if any.

Federal - Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund

The policy of the Tax-Exempt Money Fund and the California Tax-Exempt Money Market Fund is to pay each year as exempt-interest dividends substantially all the respective Fund's Municipal Securities interest income net of certain deductions. An exempt-interest dividend is any dividend or part thereof (other than a capital gains dividend) paid by a Fund and designated as an exempt-interest dividend in a written notice mailed to shareholders after the close of the Fund's taxable year. However, the aggregate amount of dividends so designated by the Fund cannot exceed the excess of the amount of interest exempt from tax under Section 103 of the Code received by the Fund during the taxable year over any amounts disallowed as deductions under Sections 265 and 171(a)(2) of the Code. The percentage of total dividends paid for any taxable year which qualifies as exempt-interest dividends will be the same for all shareholders receiving dividends from the Fund for such year. In order for the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund to pay exempt-interest dividends for any taxable year, at the close of each quarter of its taxable year at least 50% of the aggregate value of the respective Fund's assets must consist of exempt-interest obligations.

Exempt-interest dividends may be treated by shareholders of the Tax-Exempt Money Fund and the California Tax-Exempt Money Market Fund as items of interest excludable from their gross income under Section 103(a) of the Code. However, each shareholder is advised to consult his or her tax adviser with respect to whether exempt-interest dividends would retain the exclusion under Section 103(a) if such shareholder would be treated as a "substantial user" or a "related person" to such user with respect to facilities financed through any of the tax-exempt obligations held by the respective Funds. A "substantial user" is defined under U.S. Treasury Regulations to include a non-exempt person who both (1) regularly uses a part of such facilities in his or her trade or business and (2) whose gross revenues derived with respect to the facilities financed by the issuance of bonds are more than 5% of the total revenues derived by all users of such facilities, who occupies more than 5% of the usable area of

such facilities or for whom such facilities or a part thereof were specifically constructed, reconstructed or acquired. A "related person" includes certain related natural persons, affiliated corporations, partners and partnerships and S corporations and their shareholders. A percentage of the interest on indebtedness incurred by a shareholder to purchase or carry shares of the Fund, equal to the percentage of the total non-capital gain dividends distributed during the shareholder's taxable year that are exempt-interest dividends, is not deductible for federal income tax purposes.

Income itself exempt from federal income taxation will be considered in addition to adjusted gross income when determining whether Social Security payments received by a shareholder are subject to federal income taxation.

#### California - California Tax-Exempt Money Market Fund

As a regulated investment company, the California Tax-Exempt Money Market Fund will be relieved of liability for California state franchise and corporate income tax to the extent the Fund's taxable income is distributed to its shareholders. The Fund will be taxed on its undistributed taxable income. If for any year the Fund does not qualify as a regulated investment company, all of its taxable income (including interest income on California Municipal Securities for franchise tax purposes only) may be subject to California state franchise or income tax at regular corporate rates.

If, at the close of each quarter of its taxable year, at least 50% of the value of the total assets of a regulated investment company, or series thereof, consists of obligations the interest on which, if held by an individual, is exempt from taxation by California ("California Exempt Securities"), then the regulated investment company, or series of that company, will be qualified to pay dividends exempt from California state personal income tax to its non-corporate shareholders (hereinafter referred to as "California exempt-interest dividends"). For this purpose, California Exempt Securities are generally limited to California Municipal Securities and certain U.S. Government and U.S. Possession obligations. "Series" of a regulated investment company is defined as a segregated portfolio of assets, the beneficial interest in which is owned by the holders of an exclusive class or series of stock of the company. The California Tax-Exempt Money Market Fund intends to qualify under the above requirements so that it can pay California exempt-interest dividends. If the Fund does not so qualify, no part of its respective dividends to shareholders will be exempt from the California state personal income tax.

Within sixty days after the close of its taxable year, the California Tax-Exempt Money Market Fund will notify its respective shareholders of the portion of the dividends paid by the Fund to each shareholder with respect to such taxable year which is exempt from California state personal income tax. The total amount of California exempt-interest dividends paid by the Fund with respect to any taxable year cannot exceed the excess of the amount of interest received by the Fund for such year on California Exempt Securities over any amounts that, if the Fund were treated as an individual, would be considered expenses related to tax exempt income or amortizable bond premium and would thus not be deductible under federal income or California state personal income tax law. The percentage of total dividends paid for any taxable year which qualifies as California exempt-interest dividends will be the same for all shareholders receiving dividends from the Fund for such year.

In cases where shareholders are "substantial users" or "related persons" with respect to California Exempt Securities held by the California Tax-Exempt Money Market Fund, such shareholders should consult their tax advisers to determine whether California exempt-interest dividends paid by the Fund with respect to such obligations retain California state personal income tax exclusion. In this connection rules similar to those regarding the possible unavailability of federal exempt-interest dividend treatment to "substantial users" are applicable for California state tax purposes. See "Additional Information Concerning Taxes - Federal - Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund" above. Interest on indebtedness incurred by a shareholder to purchase or carry California Tax-Exempt Money Market Fund shares is not deductible for California state personal income tax purposes if the Fund distributes California exempt-interest dividends during the shareholder's taxable year.

The foregoing is only a summary of some of the important California state personal income tax considerations generally affecting the California Tax-



Exempt Money Market Fund and its shareholders. No attempt is made to present a detailed explanation of the California state personal income tax treatment of the Fund or its shareholders, and this discussion is not intended as a substitute for careful planning. Further, it should be noted that the portion of any Fund dividends constituting California exempt-interest dividends is excludable from income for California state personal income tax purposes only. Any dividends paid to shareholders subject to California state franchise tax or California state corporate income tax may therefore be taxed as ordinary or capital gains dividends to such purchasers notwithstanding that all or a portion of such dividends is exempt from California state personal income tax. Accordingly, potential investors in the Fund, including, in particular, corporate investors which may be subject to either California franchise tax or California corporate income tax, should consult their tax advisers with respect to the application of such taxes to the receipt of Fund dividends and as to their own California state tax situation, in general.

#### Other Information

Depending upon the extent of activities in states and localities in which its offices are maintained, in which its agents or independent contractors are located or in which it is otherwise deemed to be conducting business, a Fund may be subject to the tax laws of such states or localities.

Exempt-interest dividends generally will be exempt from state and local taxes as well. However, except as noted above with respect to California state personal income tax, in some situations income distributions may be taxable to shareholders under state or local law as dividend income even though all or a portion of such distributions may be derived from interest on tax-exempt obligations or U.S. Government obligations which, if realized directly, would be exempt from such income taxes. Shareholders are advised to consult their tax advisers concerning the application of state and local taxes.

The foregoing discussion is based on tax laws and regulations which are in effect on the date of this Statement of Additional Information. Such laws and regulations may be changed by legislative or administrative action.

#### YIELD INFORMATION

The "yields" and "effective yields" of each Fund are calculated according to formulas prescribed by the Securities and Exchange Commission. The standardized seven-day yield for each Fund's series of shares is computed separately for each series by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account in the particular Fund involved having a balance of one share at the beginning of the period, dividing the net change in account value by the value of the account at the beginning of the base period to obtain the base period return, and multiplying the base period return by  $(365/7)$ . The net change in the value of an account in a Fund includes the value of additional shares purchased with dividends from the original share, and dividends declared on both the original share and any such additional shares, net of all fees, other than nonrecurring account or sales charges, that are charged to all shareholder accounts in proportion to the length of the base period and the Fund's average account size. The capital changes to be excluded from the calculation of the net change in account value are realized gains and losses from the sale of securities and unrealized appreciation and depreciation. The effective annualized yields for each Fund are computed by compounding a particular Fund's unannualized base period returns (calculated as above) by adding 1 to the base period returns, raising the sums to a power equal to 365 divided by 7, and subtracting 1 from the results. In addition, the Tax-Exempt Money Fund and California Tax-Exempt Money Market Fund may quote a standardized "tax-equivalent yield" for each of its series of shares which is computed by: (a) dividing the portion of the Fund's yield (as calculated above) for such series that is exempt from federal, or in the case of the California Tax-Exempt Money Market Fund both federal and California state, income tax by one minus a stated federal, or in the case of the California Tax-Exempt Money Market Fund a combined federal and California state, income tax rate; (b) with respect to the California Tax-Exempt Money Market Fund dividing the portion of that Fund's yield (as calculated above) that is exempt from federal income tax only by one minus a federal income tax rate, and (c) adding the figure resulting from (a) above (with respect to the Tax-Exempt Money Fund) or from (a) and (b) above (with respect to the California Tax-Exempt Money Market Fund) to that portion, if any, of the Fund's yield for such series of

shares that is not exempt from federal income tax. The fees which may be imposed by institutions directly on their customers for cash management services are not reflected in the Funds' calculations of yields.

Based on the foregoing calculations, for the seven-day period ended February 28, 1995, the yield (and effective yield) for Horizon Shares and the Horizon Service Shares of the Prime Fund, Treasury Fund, Government Fund, Treasury Only Fund, Tax-Exempt Money Fund and Prime Value Fund after fee waivers and expense reimbursements by Bank of America and the Administrator, were as follows: Prime Fund - Horizon Shares -- 5.96% (6.13%); Prime Fund - Horizon Service Shares -- 5.71% (5.87%); Treasury Fund - Horizon Shares -- 5.81% (5.97%); Treasury Fund - Horizon Service Shares -- 5.56% (5.71%); Government Fund - Horizon Shares -- 5.98% (6.15%); Government Fund - Horizon Service Shares -- 5.73% (5.89%); Treasury Only Fund - Horizon Service Shares -- 5.14% (5.26%); Tax-Exempt Money Fund - Horizon Shares -- 3.73% (3.79%); Tax-Exempt Money Fund - Horizon Service Shares -- 3.48% (3.53%) and Prime Value Fund - Horizon Shares -- 5.96% (6.14%). For the same period, the tax-equivalent yield for the Tax-Exempt Money Fund was 5.41% for Horizon Shares and 5.04% for Horizon Service Shares. The federal income tax rate used in calculating the tax-equivalent yields of the Tax-Exempt Money Fund was 31%. The annualized yield, effective yield and tax-equivalent yield (after fee waivers and expense reimbursements) for Horizon Service Shares of the California Tax-Exempt Money Market Fund was 3.43%, 3.48% and 5.25%, respectively, for the seven-day period ended February 28, 1995. The combined federal and California income tax rate used in calculating the foregoing tax-equivalent yields was 34.70%.

No Horizon Service Shares of the Prime Value Fund were outstanding during the seven-day period ended February 28, 1995.

From time to time, the yields of the Funds may be quoted in and compared to other mutual funds with similar investment objectives in advertisements, shareholder reports or other communications to shareholders. The Funds may also include calculations in such communications that describe hypothetical investment results. (Such performance examples will be based on an express set of assumptions and are not indicative of the performance of any Fund.) Such calculations may from time to time include discussions or illustrations of the effects of compounding in advertisements. "Compounding" refers to the fact that, if dividends or other distributions on a Fund investment are reinvested by being paid in additional Fund shares, any future income of a Fund would increase the value of the Fund investment more quickly than if dividends or other distributions had been paid in cash. The Funds may also include discussions or illustrations of the potential investment goals of a prospective investor (including but not limited to tax and/or retirement planning), investment management techniques, policies or investment suitability of a Fund, economic conditions, legislative developments (including pending legislation), the effects of inflation and historical performance of various asset classes. From time to time advertisements or communications to shareholders may summarize the substance of information contained in shareholder reports (including the investment composition of a Fund), as well as the views of the investment adviser as to current market, economic, trade and interest rate trends, legislative, regulatory and monetary developments, investment strategies and related matters believed to be of relevance to a Fund. The Funds may also include in advertisements charts, graphs or drawings which illustrate the potential risks and rewards of investment in various investment vehicles. In addition, advertisements or shareholder communications may include a discussion of certain attributes or benefits to be derived by an investment in a Fund. Such advertisements or communications may include symbols, headlines or other material which highlight or summarize the information discussed in more detail therein. With proper authorization, a Fund may reprint articles (or excerpts) written regarding the Fund and provide them to prospective shareholders. Performance information with respect to the Funds is generally available by calling (800) 227-1545.

In addition to the publications listed in the Funds' Prospectuses, yield data as reported in the following publications may be used in comparing the yields of the Funds to those of other mutual funds with similar investment objectives: Business Week, Investor's Business Daily, Kiplinger, U.S. News, Financial World, USA Today, Morningstar, Mutual Fund Monitor, and American Banker.

GENERAL INFORMATION

## Description of Shares

The Company is an open-end management investment company organized as a Maryland corporation on October 27, 1982. The Fund's Charter authorizes the Board of Directors to issue up to two hundred billion full and fractional shares of capital stock. The Board of Directors has authorized the issuance of twenty-three classes of stock - Classes A through W, Common Stock representing interests in twenty-three separate investment portfolios. Each share of capital stock has a par value of \$.001. This Statement of Additional Information describes the Horizon and Horizon Service Shares of the Prime, Treasury, Government, Treasury Only, Tax-Exempt Money, California Tax-Exempt Money Market (Horizon Service Shares Only) and Prime Value Funds.

Shares have no preemptive rights and only such conversion or exchange rights as the Board may grant in its discretion. When issued for payment as described in its prospectuses, the Company's shares will be fully paid and non-assessable. For information concerning possible restrictions upon the transferability of the Company's shares and redemption provisions with respect to such shares, see "Purchase and Redemption Information" in this Statement of Additional Information.

The Funds' Horizon Shares and Horizon Service Shares differ from Pacific Horizon Shares in the following respects. Only Pacific Horizon Shares are subject to the Special Management Services fee described in the prospectuses for such shares, which is payable at the rate of .32% (on an annualized basis) of the average daily net asset value of the Pacific Horizon Shares that are outstanding from time to time. Only Horizon Service Shares bear the fees payable under the Shareholder Services Plan described below, which are payable at the rate of up to .25% (on an annualized basis) of the average daily net asset value of the Horizon Service Shares that are outstanding from time to time. As a result, at any given time, the net yield on a Fund's Horizon Shares will be approximately .25% higher than the yield on that Fund's Horizon Service Shares and .32% higher than the yield on the same Fund's Pacific Horizon Shares. Standardized yield quotations will be computed separately for each series of shares.

Holders of all outstanding shares of a particular Fund will vote together in the aggregate and not by class on all matters, except that only Horizon Service Shares of a Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the Fund's payments to Service Organizations and only Pacific Horizon Shares of a Fund will be entitled to vote on matters submitted to a vote of shareholders pertaining to the expenses that are borne exclusively by such shares. Further, shareholders of all of the Funds, as well as those of any other investment portfolio now or hereafter offered by the Company, will vote together in the aggregate and not separately on a Fund-by-Fund basis, except as otherwise required by law or when permitted by the Board of Directors. Rule 18f-2 under the 1940 Act provides that any matter required to be submitted to the holders of the outstanding voting securities of an investment company such as the Company shall not be deemed to have been effectively acted upon unless approved by a majority of the outstanding shares of each Fund affected by the matter. A Fund is affected by a matter unless it is clear that the interests of each Fund in the matter are substantially identical or that the matter does not affect any interest of the Fund. Under the Rule, the approval of an investment advisory agreement or any change in a fundamental investment policy would be effectively acted upon with respect to a Fund only if approved by a majority of the outstanding shares of such Fund. However, the Rule also provides that the ratification of independent public accountants, the approval of principal underwriting contracts and the election of directors may be effectively acted upon by shareholders of the Company voting in the aggregate without regard to particular Funds.

Notwithstanding any provision of Maryland law requiring a greater vote of the Company's common stock (or of the shares of a Fund voting separately as a class) in connection with any corporate action, unless otherwise provided by law (for example, by Rule 18f-2 discussed above) or by the Company's Charter, the Company may take or authorize such action upon the favorable vote of the holders of more than 50% of the outstanding common stock of the Company voting without regard to class.

## Horizon Service Shares

As stated in the Prospectuses for such Shares, Horizon Service

Shares are sold to institutions ("Service Organizations") which enter into service agreements requiring them to provide support services to their customers who beneficially own Horizon Service Shares in consideration of the Funds' payment of up to .25% (on an annualized basis) of the average daily net asset value of the Horizon Service Shares beneficially owned by the customers. For the fiscal years ended February 28, 1993, February 28, 1994, and February 28, 1995, payments to Shareholder Organizations totalled \$1,935,140, \$2,029,346 and \$2,115,780, respectively, with respect to the Horizon Service Shares of the Prime Fund, \$758,331, \$1,231,895 and \$989,269, respectively, with respect to Horizon Service Shares of the Treasury Fund, and \$118,727, \$118,946 and \$103,606, respectively, with respect to the Horizon Service Shares of the Tax-Exempt Money Fund. Of these amounts, for the fiscal years indicated, \$1,578,092, \$940,512 and \$391,875, respectively, \$716,174, \$1,160,141 and \$224,434, respectively, and \$95,544, \$56,412 and \$28,442, respectively, were paid to Bank of America (Security Pacific prior to April 22, 1992) and/or its (their) affiliates with respect to the Prime Fund, Treasury Fund and Tax-Exempt Money Fund, respectively, and \$0 was paid to the Administrator and/or its affiliates with respect to the Prime Fund, Treasury Fund and Tax-Exempt Money Fund, respectively.

For the fiscal year ended February 28, 1994, payments to Shareholder Organizations totalled \$884,419 and \$323,937, respectively with respect to the Government Fund and Treasury Only Fund. Of these amounts, \$445,463 and \$213,799, respectively was paid by the Government Fund and Treasury Only Fund to Bank of America and/or its affiliates, and \$0 and \$0, respectively was paid by the Government Fund and Treasury Only Fund to the Administrator and/or its affiliates. In addition, during the same period, Bank of America, the Administrator and Service Organizations waived fees totaling \$160,284 for the Government Fund and \$171,993 for the Treasury Only Fund. For the fiscal year ended February 28, 1995, payments to Shareholder Organizations totalled \$590,188 and \$604,380, respectively, with respect to the Government Fund and Treasury Only Fund. Of these amounts, \$132,934 and \$569,889, respectively, were paid by the Government Fund and Treasury Only Fund to Bank of America and/or its affiliates, and \$0 was paid by the Government Fund and the Treasury Only Fund to the Administrator and/or its affiliates.

Horizon Service Shares of the California Tax-Exempt Money Market Fund were first offered on March 1, 1993. For the fiscal year ended February 28, 1994, payments to Service Organizations totalled \$294,140. Of this amount \$226,495 was paid to Bank of America and/or its affiliates; and \$0 was paid to the Administrator and/or its affiliates. In addition, Bank of America, the Administrator and/or its affiliates waived fees totaling \$59,369. For the fiscal year ended February 28, 1995, payments to Service Organizations totalled \$255,299 with respect to the California Tax-Exempt Money Market Fund. Of this amount, \$251,505 was paid to Bank of America and/or its affiliates, and \$0 was paid to the Administrator and/or its affiliates. No Horizon Service Shares were outstanding at any time prior to February 28, 1995 with respect to the Prime Value Fund.

Services provided by Shareholder Organizations under service agreements may include: (i) aggregating and processing purchase and redemption requests for Horizon Service Shares from customers and placing net purchase and redemption orders with the Distributor; (ii) providing customers with a service that invests the assets of their accounts in Horizon Service Shares pursuant to specific or pre-authorized instructions; (iii) processing dividend payments on behalf of customers; (iv) providing information periodically to customers showing their positions in Horizon Service Shares; (v) arranging for bank wires; (vi) responding to customer inquiries relating to the services performed by the Shareholder Organizations; (vii) providing subaccounting with respect to Horizon Service Shares beneficially owned by customers or providing the information to the Company necessary for subaccounting; (viii) if required by law, forwarding shareholder communications from the Company (such as proxies, shareholder reports, annual and semi-annual financial statements and dividend, distribution and tax notices) to customers; (ix) forwarding to customers proxy statements and proxies containing any proposals regarding the Company's arrangements with Shareholder Organizations; and (x) providing such other similar services as requested by the Funds.

Pursuant to an exemptive order granted by the Securities and Exchange Commission in connection with the creation of Horizon Service Shares, the Company's agreements with Shareholder Organizations are governed by a Plan (called a "Shareholder Services Plan"). The Plan has been approved by the Board

of Directors of the Company, including a majority of the Directors who are not "interested persons" of the Company as defined in the Investment Company Act of 1940 and have no direct or indirect financial interest in the Plan or any related service agreement (the "Disinterested Directors"). In approving the Plan, the Directors determined that there was a reasonable likelihood that it would be beneficial to each Fund and to the holders of its Horizon Service Shares. The Plan will continue with respect to each Fund until October 31, 1995, unless earlier terminated in accordance with its terms, and thereafter it will continue in effect indefinitely provided that the Directors approve the Plan at least annually in the manner described above.

Under the Plan, the Board of Directors must be provided with and must review, at least quarterly, a written report of all amounts expended pursuant to the Plan. The Plan and any service agreements implementing the Plan must be in writing. The Plan may be terminated at any time with respect to any Fund by a vote of the majority of the Disinterested Directors. Each service agreement under the Plan is also terminable at any time without payment of any penalty by a vote of a majority of the Disinterested Directors. Any material amendment of the Plan must be approved by a majority vote of the Board of Directors and of the Disinterested Directors cast in person at a meeting called for the purpose of voting on the amendment.

With respect to the purchase or sale of portfolio securities and the execution of portfolio transactions, no Fund will give preference to Shareholder Organizations with which the Fund enters into service agreements.

First Cash Funds of America, pursuant to an Administrative Services Plan, had previously entered into a shareholder servicing agreement with Bank of America (and prior to that shareholder servicing agreement had entered into a shareholder servicing agreement with Seattle-First National Bank, an affiliate of Bank of America). Under the shareholder servicing agreement, Bank of America, as shareholder servicing agent, or an affiliate of Bank of America pursuant to a sub-shareholder servicing agreement, provided certain services to shareholders in exchange for a fee from each Predecessor Fund of First Cash Funds of America not in excess of .20% of the average daily net assets of such Predecessor Fund. Such fees were actually incurred by the Predecessor Government Fund of First Cash Funds of America at the effective annual rate of .12% of its average daily net assets and by the Predecessor Treasury Only Fund of First Cash Funds of America at the effective annual rate of .06% of its average daily net assets for the period ended February 28, 1993. For the period June 4, 1990 (commencement of operations) through March 31, 1991 (fiscal year end), the fiscal year ended March 31, 1992 and the period April 1, 1992 through February 28, 1993, the Predecessor Government Fund and Predecessor Treasury Only Fund of First Cash Funds of America, respectively, accrued shareholder servicing fees of \$269,126 (of which \$46,068 was waived), \$501,845 (of which \$170,760 was waived) and \$378,058 (of which \$138,771 was waived), respectively, and \$76,982 (of which \$69,283 was waived), \$253,503 (of which \$164,166 was waived) and \$234,373 (of which \$160,559 was waived), respectively.

#### Counsel

Drinker Biddle & Reath (of which W. Bruce McConnel, III, Secretary of the Company, is a partner), 1345 Chestnut Street, Philadelphia National Bank Building, Philadelphia, Pennsylvania 19107, serves as counsel to the Company and will pass upon the legality of the shares offered hereby. O'Melveny & Myers, 400 South Hope Street, Los Angeles, California 90071, acts as special California counsel for the Company and has reviewed the portions of the Prospectus and Statement of Additional Information for the California Tax-Exempt Money Market Fund concerning California taxes and the description of the special considerations relating to California Municipal Securities.

#### Independent Accountants

Price Waterhouse LLP, with offices at 1177 Avenue of the Americas, New York, New York 10036, has been selected as independent accountants of each Fund for the fiscal year ending February 28, 1996. Deloitte & Touche LLP served as independent accountants for the Predecessor Government Funds and Predecessor Treasury Only Funds for the 11-month period ended February 28, 1993, the fiscal year ended March 31, 1992 and the period from June 4, 1990 (commencement of operations) through March 31, 1991.

## Reports

Each Fund will send its shareholders unaudited semi-annual reports including a description of the Fund's investments, and annual financial statements together with a report of independent accountants.

## Shareholder Vote

As used in the Prospectuses and this Statement of Additional Information, a "vote of a majority" of the outstanding shares of a Fund or a particular series means, with respect to the approval of an investment advisory agreement, a distribution plan or a change in a fundamental investment policy, the affirmative vote of the lesser of (a) more than 50% of the outstanding shares of the Fund or of the series, or (b) 67% of the shares of the Fund or of the series present at a meeting at which more than 50% of the outstanding shares of the Fund or series are represented in person or by proxy.

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Treasury Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 98,230,626.530 shares (7.70%); Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 1,044,975,154.790 shares (82.00%); and Hellman & Freidman Capital Partners II, Limited Partnership, Attention: Georgia Lee, 1 Maritime Plaza, 12th Floor, San Francisco, CA 94111, 1,216,118,073.700 shares (95.42%).

At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Treasury Fund was as follows: Bank of America Trustee/Custodian for Investing in Horizon Treasury, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 398,540,438.170 shares (68.901%); Security Pacific State Trust Co., Agreement for Sec. PACWA Participants, Attn: Cash Sweep Funds (L. Goekjian), P.O. Box 91630, Pasadena, CA 91101, 94,279,024.120 shares (16.299%).

At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Treasury Fund were as follows: Bank of America FM&TS Operat CA, Attn: CTF Unit, 701 South Western Avenue, Glendale, CA 91201, 65,745,555.320 shares (23.658%); Bank of America Nevada Southern Comm. Bank, Attn: Dan Dykes, P.O. Box 98600, Las Vegas, NV 89193, 63,974,589.270 shares (23.020%). Security Pacific State Trust Co., Agreement for Sec. PACWA Participants, Attn: Cash Sweep Funds, P.O. Box 91630, Pasadena, CA 91101, 56,906,301.540 shares (20.477%); and Security Pacific Cash Management, c/o Bank of America - GPO M/C 5533, Attn: Liezel Barangan, 1850 Gateway Boulevard, Concord, CA 94520, 77,003,300 shares (27.709%). At June 15, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding Horizon Service Shares of the Treasury Fund was as follows: Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services, Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 263,629,755.130 shares (65.51%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Prime Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 514,119,226.900 shares (38.76%); Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 392,983,248.780 shares (29.63%); and Southwest Securities Inc., Attn: Cashiering, 201 Elm Street, Suite 4300, Dallas, TX 75270, 169,018,910.270 shares (12.74%). At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Prime Fund were as follows: Bank of America Trustee/Custodian for Investing Horizon Prime, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 385,058,852.030 shares (56.838%); and Bank of America NT&SA, Attn: Kay Warren/Dept. #5596, 1455 Market Street, San Francisco, CA 94103, 57,300,000.00 shares (9.934%). At June 15, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding Horizon Service Shares of the Prime Fund were as follows: Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services, Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 752,776,315.610 shares (70.26%).

At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Prime Fund were as follows: Bank of America NT&SA Financial Management and Trust Services, 701 S. Western Avenue, Glendale, CA 91201, 74,038,082.090 shares (9.835%); Capital Network Services, Attn: Donna Novell, One Bush Street, 11th Floor, San Francisco, CA 94104, 86,407,261.23 shares (11.478%); Security Pacific Cash Management, c/o Bank of America. GPO. M/C 5533 Attn: Liezel Barangan, 1850 Gateway Boulevard, M/C 5533, Concord, CA 94520, 379,755,600.000 shares (50.447%); Security Pacific State Trust Co., Agreement for SecPAC WA Participants, Attn: Cash Sweep Funds (L. Goekjian) P.O. Box 91630, Pasadena, CA 91101, 54,321,621.330 shares (7.216%); and Southwest Securities Inc., Attn: Mary Lisenber, 1201 Elm Street, Suite 4300, Dallas, TX 75270, 130,146,660.030 shares (17.289%).

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Tax-Exempt Money Fund were as follows: BA Investment Services, Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 12,233,845.190 shares (39.73%); Southwest Securities Inc., Attn: Cashiering, 1201 Elm Street, Suite 4300, Dallas, TX, 75270, 10,387,253.930 shares (33.73%); and Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 6,515,635.730 shares (21.16%).

At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Tax-Exempt Money Fund were as follows: Bank of America Custodian For Investing in Horizon Tax-Exempt Money Fund, Attn: Eric Peterson, 701 S. Western Avenue, 2nd Floor, Glendale, CA 91201, 129,582,555.65 shares (38.576%); Continental Bank National Association Custodian for the Benefit of Custodian Co. Attn: Mary Chester, 231 South LaSalle Street, 6Q, Chicago, IL 60697, 152,699,416.270 shares (45.458%); and Maine Midland Bank NA, Investment Services, 17th Floor, Attn: Christine Mincel, One Marine Midland Center, Buffalo, NY 14203, 21,684,672.980 shares (6.455%).

At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Horizon Service Shares of the Tax-Exempt Money Fund were as follows: Furman C. Moseley and Susan R. Moseley Tenn. In Common, 1201 3rd Avenue, Box 7C, Seattle, WA 98101, 4,165,513.060 shares (9.91%); Omnibus A/C for the shareholder accounts maintained by Concord Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 22,398,544.590 shares (53.31%); and Omnibus A/C for the Shareholder Accounts maintained by Concord Financial Services Inc. Attn: First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 3,494,305.180 shares (8.31%). At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Tax-Exempt Money Fund were as follows: BA Investment Services Inc., 555 California Street, 4th Floor Dept. #4337, San Francisco, CA 94104, 1,362,028.590 shares (5.260%); Bank of America FM&TS Oper. CA, Attn: CTF Unit, 701 South Western Avenue, Glendale, CA 91201, 2,293,907.40 shares (8.859%); and Southwest Securities, Inc., Attn: Mary Lisenber, 1201 Elm Street, Suite 430, Dallas, TX 75270, 21,021,580.530 shares (81.187%). At June 15, 1955, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Government Fund were as follows: Bank of America, NT&SA, The Private Bank, Attn: ACI Unit #8329, 701 S. Western Avenue, Glendale, CA 91201, 79,875,532.090 shares (22.71%); Bank of America State Trust Co., 299 N. Euclid Avenue., Pasadena, CA 91101, 64,756,966.280 shares (18.41%); and BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 170,940,404.650 shares (48.60%). At June 16, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Shares of the Government Fund were as follows: Bank of America NT&SA Trustee/Custodian for Investing in Horizon Shares of the Government Fund, Attn: Cynthia Beauvais, 701 South Western Avenue., Glendale, CA 91201, 9,327,446.350 shares (5.028%); Bank of America State Trust, Attn: Rigo Barrett, 299 N. Euclid Avenue, Pasadena, CA 91101, 28,063,486.740 shares (15.129%); Capital Network Services, Attn: Donna Novell, One Bush Street, 11th Floor, San Francisco, CA 94104, 24,227,801.980 shares (13.061%); County of Orange, Matt Raabe, P.O. Box 4515, Santa Ana, CA 92702, 10,000,000.000 shares (5.391%); Cypress Insurance Co., Attn: Larry Tetzloff, 9290 W. Dodge Road, Omaha, NE 68124, 9,996,515.930 shares (5.389%); Harr & Co., c/o Bank of New York, Attn: Bimal Sana, Spec. Prec.

Dept., One Wall Street, 5th Floor, New York, NY 10286, 14,000,000.000 shares (7.547%); Micron Electronics Inc., Attn: Debbie Meigand, 900 East Karcher Road, Nanpa, ID 83687, 16,080,510.14 shares (8.669%); and Silocin Magic Corp., Attn: Meng A. Lim, 20300 Stevens Creek Boulevard., Suite 400, Cupertino, CA 95014, 18,058,262.110 shares (9.735%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Service Shares of the Government Fund were as follows: Spacelabs Medical, Inc., Attn: Scott Bender, P.O. Box 97013, Redmond, WA 98073, 14,572,000.000 shares (5.70%); Good Health Plan of WA, Attn: Tsai Cheng, 1501 9th Avenue, Suite 500, Seattle, WA 98101, 16,584,866.580 shares (6.49%); Omnibus A/C for the Shareholder Accounts maintained by Concord. Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 68,555,257.020 shares (26.85%). At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the Horizon Service Shares of the Government Fund were as follows: Bank of America Nevada Southern Comm. Bank, Attn: Dan Dykes, P.O. Box 98600, Las Vegas, NV 89193-8600, 35,849,966.050 shares (52.294%); and Capital Network Services, Attn: Donna M. Howell, One Bush Street, 11th Floor, San Francisco, CA 94104-4425, 23,929,840.440 shares (34.906%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the Pacific Horizon Shares of the Treasury Only Fund were as follows: Bank of America NT&SA, the Private Bank, Attn: ACI Unit 48329, 701 South Western Avenue, Glendale, CA 91201, 48,516,900.490 shares (31.68%); Bank of America State Trust Co., 299 N. Euclid Avenue, Pasadena, CA 91101, 22,350,831.320 shares (14.59%); and BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 69,016,521.500 shares (45.06%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Horizon Service Shares of the Treasury Only Fund were as follows: National Home Mortgage Corp., Attn: Mortgage Banking Treasury Operations, 5565 Morehouse Drive, 3rd Floor, San Diego, CA 92121, 12,147,667,580 shares (9.42%); Comcare, Inc., 4001 N. 3rd Street, Suite 120, Phoenix, AZ 85012, 26,230,243.620 shares (20.34%); and Omnibus A/C For the Shareholder Accounts Maintained by Concord Financial Services Inc., Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 21,883,084.450 shares (16.97%). At June 16, 1995, the name, address and share ownership of the entities which held beneficially more than 5% of the outstanding Horizon Service Shares of the Treasury Only Fund were as follows: BA Investment Service Inc., 555 California Street, 4th Floor Dept. #4337, San Francisco, CA 94104, 6,403,628.120 shares (28.679%); Bank of America NT&SA Trustee/Custodian for Investing in Horizon Service Shares of the Treasury Only Fund, Attn: Cynthia Beauvais, 701 South Western Avenue, Glendale, CA 91201, 3,501,414.020 shares (15.681%); Bank of America State Trust, Attn: Rigo Barrett, 299 N. Euclid Avenue, Pasadena, CA 91101, 5,420,893.150 shares (24.277%); Fair Isaac & Co., Attn: Christine Tam, 120 North Redwood, San Rapheal, CA 94903-1996, 1,338,800.750 shares (5.996%); Foothill/Eastern Transportation Corridor Agency, Attn: Laura Barker, 201 East Sandpot, Suite 200, Santa Anna, CA 92707, 2,559,586.380 shares (11.463%); and Nexus, Attn: Kathleen Menace, P.O. Box 60637, Sunnyvale, CA 94088-0637, 2,525,153.380 shares (11.309%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding Pacific Horizon Shares of the Prime Value Fund were as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 16,383,467.170 shares (26.45%); and Bank of America State Trust Co., Attn: Leon Goekjian, P.O. Box 91630, Pasadena, CA 91101, 45,078,465.290 shares (72.79%). At June 16, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding Horizon Shares of the Prime Value Fund was as follows: Tice & Co., c/o M&T, Attn: Cash Management Clerk, 8th Floor, P.O. Box 1377, Buffalo, NY 14240, 453,078,561.590 shares (93.510%). At June 15, 1995, the name, address and share ownership of the entity which held of record more than 5% of the outstanding shares of the Pacific Horizon Shares of the California Tax-Exempt Money Market Fund was as follows: BA Investment Services Inc., For the Benefit of Clients, 555 California Street, 4th Floor, Department #4337, San Francisco, CA 94104, 204,443,886.590 shares (22.07%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Horizon Service Shares of the California Tax-Exempt Money Market Fund were as follows: Leo Zuckerman Trust, DTD 12-11-91,4444 Viewridge Avenue, San Diego, CA 92123, 4,850,877.280 shares (5.35%); and Omnibus A/C for the Shareholder Accounts Maintained by Concord Financial Services Inc. Attn: Linda Zerbe, First and Market Building, 100 First Avenue, Suite 300, Pittsburgh, PA 15222, 13,391,453.970 shares (14.77%). At June 16, 1995, the name, address and share ownership of the entity which held beneficially more



than 5% of the outstanding shares of the Horizon Service Shares of the California Tax-Exempt Money Market Fund was as follows: BA Investment Services Inc., 555 California Street, 4th Floor, Dept. #4337, San Francisco, CA 94109, 13,792,509.310 shares (99.206%). At June 15, 1995, the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Flexible Bond Fund were as follows: Peter F. Smith and Jacquelyn L. Smith, JTWROS, 1785 C. Blodgett Road, Mount Vernon, WA 98273, 13,973.917 shares (5.58%); and BA Investment Services, Inc., FBO 200724011, 185 Berry Street, 3rd Floor #2640, San Francisco, CA 94104, 22,436.531 shares (8.96%). At June 15, 1995 the name, address and share ownership of the entity which held of record more than 5% of the outstanding shares of the Asset Allocation Fund was as follows: Bank of America, Texas AATTEE. National-O'Neill Supplemental Savings Plan, Attn: Mutual Funds (81-6-01005-0), P.O. Box 94627, Pasadena, CA 91109, 24,289,973 shares (5.07%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the National Municipal Bond Fund were as follows: BA Investment Services, Inc. FBO 405084421, 555 California Street, 4th Floor, #2640, San Francisco, CA 94104, 26,336.154 shares (8.31%); and BA Investment Services, Inc., FBO 405266591, 555 California Street, 4th Floor, #2640, San Francisco, CA 94104, 25,034.024 shares (7.90%). At June 15, 1995 the name, address and share ownership of the entities which held of record more than 5% of the outstanding shares of the Corporate Bond Fund were as follows: Dean Witter Reynolds Inc., 5 World Trade Center, 4th Floor, Attn: 5th O Div., New York, NY 10048, 138,820.000 shares (6.93%); and Smith Barney Shearson, Inc., 333 W. 39th Street, 8th Floor, New York, NY 10001, 148,925.482 shares (7.43%).

At such dates, no other person was known by the Company to hold of record or beneficially more than 5% of the outstanding shares of any investment portfolio of the Company.

The Prospectuses relating to the Horizon Shares and Horizon Service Shares and this Statement of Additional Information omit certain information contained in the Company's registration statement filed with the Securities and Exchange Commission. Copies of the registration statement, including items omitted herein, may be obtained from the Commission by paying the charges prescribed under its rules and regulations.

#### Financial Statements and Experts

The Annual Reports for each Fund for their fiscal year or periods ended February 28, 1995 (the "Annual Reports") accompanies this Statement of Additional Information. The financial statements and notes thereto in each Annual Report are incorporated in this Statement of Additional Information by reference, and have been audited by Price Waterhouse LLP, whose report thereon also appears in each Annual Report and is also incorporated herein by reference. Such financial statements have been incorporated herein in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial highlights and financial statements for the 11-month period ended February 28, 1993, the fiscal year ended March 31, 1992 and the period June 4, 1990 through March 31, 1991 of the Predecessor Government Fund and Predecessor Treasury Only Fund of First Cash Funds of America, as well as of the Government Money Trust and Treasury Money Trust in which said Funds invested included in the Prospectus for the Government Fund and Treasury Only Fund (with regard to the financial highlights) and incorporated by reference in this Statement of Additional Information (with regard to the financial statements), have been audited by Deloitte & Touche LLP as set forth in their reports thereon which are incorporated herein by reference. The financial statements and financial highlights audited by Deloitte & Touche LLP have been incorporated herein by reference (with regard to the financial statements) and included herewith (with regard to the financial highlights) in reliance on the report given on their authority as experts in accounting and auditing.

#### APPENDIX A

##### Commercial Paper Ratings

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market. The following summarizes the rating categories used by

Standard and Poor's for commercial paper:

"A-1" - Issue's degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted "A-1+."

"A-2" - Issue's capacity for timely payment is satisfactory. However, the relative degree of safety is not as high as for issues designated "A-1."

"A-3" - Issue has an adequate capacity for timely payment. It is, however, somewhat more vulnerable to the adverse effects of changes and circumstances than an obligation carrying a higher designation.

"B" - Issue has only a speculative capacity for timely payment.

"C" - Issue has a doubtful capacity for payment.

"D" - Issue is in payment default.

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of 9 months. The following summarizes the rating categories used by Moody's for commercial paper:

"Prime-1" - Issuer or related supporting institutions are considered to have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; and well established access to a range of financial markets and assured sources of alternate liquidity.

"Prime-2" - Issuer or related supporting institutions are considered to have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternative liquidity is maintained.

"Prime-3" - Issuer or related supporting institutions have an acceptable capacity for repayment of short-term promissory obligations. The effects of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and the requirement for relatively high financial leverage. Adequate alternate liquidity is maintained.

"Not Prime" - Issuer does not fall within any of the Prime rating categories.

The three rating categories of Duff & Phelps for investment grade commercial paper and short-term debt are "D-1," "D-2" and "D-3." Duff & Phelps employs three designations, "D-1+," "D-1" and "D-1-," within the highest rating category. The following summarizes the rating categories used by Duff & Phelps for commercial paper:

"D-1+" - Debt possesses highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below risk-free U.S. Treasury short-term obligations.

"D-1" - Debt possesses very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

"D-1-" - Debt possesses high certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk

factors are very small.

"D-2" - Debt possesses good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

"D-3" - Debt possesses satisfactory liquidity, and other protection factors qualify issue as investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

"D-4" - Debt possesses speculative investment characteristics. Liquidity is not sufficient to ensure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.

"D-5" - Issuer has failed to meet scheduled principal and/or interest payments.

Fitch short-term ratings apply to debt obligations that are payable on demand or have original maturities of up to three years. The following summarizes the rating categories used by Fitch for short-term obligations:

"F-1+" - Securities possess exceptionally strong credit quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

"F-1" - Securities possess very strong credit quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+."

"F-2" - Securities possess good credit quality. Issues assigned this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as the "F-1+" and "F-1" categories.

"F-3" - Securities possess fair credit quality. Issues assigned this rating have characteristics suggesting that the degree of assurance for timely payment is adequate; however, near-term adverse changes could cause these securities to be rated below investment grade.

"F-S" - Securities possess weak credit quality. Issues assigned this rating have characteristics suggesting a minimal degree of assurance for timely payment and are vulnerable to near-term adverse changes in financial and economic conditions.

"D" - Securities are in actual or imminent payment default.

Fitch may also use the symbol "LOC" with its short-term ratings to indicate that the rating is based upon a letter of credit issued by a commercial bank.

Thomson BankWatch short-term ratings assess the likelihood of an untimely or incomplete payment of principal or interest of unsubordinated instruments having a maturity of one year or less which is issued by United States commercial banks, thrifts and non-bank banks; non-United States banks; and broker-dealers. The following summarizes the ratings used by Thomson BankWatch:

"TBW-1" - This designation represents Thomson BankWatch's highest rating category and indicates a very high degree of likelihood that principal and interest will be paid on a timely basis.

"TBW-2" - This designation indicates that while the degree of safety regarding timely payment of principal and interest is strong, the relative degree of safety is not as high as for issues rated "TBW-1."

"TBW-3" - This designation represents the lowest investment grade category and indicates that while the debt is more susceptible to adverse developments (both internal and external) than obligations with higher ratings, capacity to service principal and interest in a timely fashion is considered

adequate.

"TBW-4" - This designation indicates that the debt is regarded as non-investment grade and therefore speculative.

IBCA assesses the investment quality of unsecured debt with an original maturity of less than one year which is issued by bank holding companies and their principal bank subsidiaries. The following summarizes the rating categories used by IBCA for short-term debt ratings:

"A1+" - Obligations supported by the highest capacity for timely repayment.

"A1" - Obligations are supported by the highest capacity for timely repayment.

"A2" - Obligations are supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic or financial conditions.

"A3" - Obligations are supported by a satisfactory capacity for timely repayment. Such capacity is more susceptible to adverse changes in business, economic or financial conditions than for obligations in higher categories.

"B" - Obligations for which the capacity for timely repayment is susceptible to adverse changes in business, economic or financial conditions.

"C" - Obligations for which there is an inadequate capacity to ensure timely repayment.

"D" - Obligations which have a high risk of default or which are currently in default.

#### Corporate and Municipal Long-Term Debt Ratings

The following summarizes the ratings used by Standard & Poor's for corporate and municipal debt:

"AAA" - This designation represents the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.

"AA" - Debt is considered to have a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.

"A" - Debt is considered to have a strong capacity to pay interest and repay principal although such issues are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

"BBB" - Debt is regarded as having an adequate capacity to pay interest and repay principal. Whereas such issues normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher-rated categories.

"BB," "B," "CCC," "CC" and "C" - Debt is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "C" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

"BB" - Debt has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The "BB" rating category is also used for debt subordinated to senior debt that is

assigned an actual or implied "BBB-" rating.

"B" - Debt has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The "B" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "BB" or "BB-" rating.

"CCC" - Debt has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The "CCC" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "B" or "B-" rating.

"CC" - This rating is typically applied to debt subordinated to senior debt that is assigned an actual or implied "CCC" rating.

"C" - This rating is typically applied to debt subordinated to senior debt which is assigned an actual or implied "CCC-" debt rating. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

"CI" - This rating is reserved for income bonds on which no interest is being paid.

"D" - Debt is in payment default. This rating is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S & P believes such payments will be made during such grace period. "D" rating is also used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

PLUS (+) OR MINUS (-) - The ratings from "AA" through "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

"r" - This rating is attached to highlight derivative, hybrid, and certain other obligations that S & P believes may experience high volatility or high variability in expected returns due to non-credit risks. Examples of such obligations are: securities whose principal or interest return is indexed to equities, commodities, or currencies; certain swaps and options; and interest only and principal only mortgage securities.

The following summarizes the ratings used by Moody's for corporate and municipal long-term debt:

"Aaa" - Bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

"Aa" - Bonds are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in "Aaa" securities.

"A" - Bonds possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

"Baa" - Bonds considered medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

"Ba," "B," "Caa," "Ca," and "C" - Bonds that possess one of these ratings provide questionable protection of interest and principal ("Ba" indicates some speculative elements; "B" indicates a general lack of characteristics of desirable investment; "Caa" represents a poor standing; "Ca" represents obligations which are speculative in a high degree; and "C" represents the lowest rated class of bonds). "Caa," "Ca" and "C" bonds may be in default.

Con. (---) - Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Moody's applies numerical modifiers 1, 2 and 3 in each generic classification from "Aa" to "B" in its bond rating system. The modifier 1 indicates that the issuer ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issuer ranks at the lower end of its generic rating category.

The following summarizes the long-term debt ratings used by Duff & Phelps for corporate and municipal long-term debt:

"AAA" - Debt is considered to be of the highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.

"AA" - Debt is considered of high credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

"A" - Debt possesses protection factors which are average but adequate. However, risk factors are more variable and greater in periods of economic stress.

"BBB" - Debt possesses below average protection factors but such protection factors are still considered sufficient for prudent investment. Considerable variability in risk is present during economic cycles.

"BB," "B," "CCC," "DD," and "DP" - Debt that possesses one of these ratings is considered to be below investment grade. Although below investment grade, debt rated "BB" is deemed likely to meet obligations when due. Debt rated "B" possesses the risk that obligations will not be met when due. Debt rated "CCC" is well below investment grade and has considerable uncertainty as to timely payment of principal, interest or preferred dividends. Debt rated "DD" is a defaulted debt obligation, and the rating "DP" represents preferred stock with dividend arrearages.

To provide more detailed indications of credit quality, the "AA," "A," "BBB," "BB" and "B" ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within these major categories.

The following summarizes the highest four ratings used by Fitch for corporate and municipal bonds:

"AAA" - Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

"AA" - Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA." Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally

rated "F-1+."

"A" - Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

"BBB" - Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have an adverse impact on these bonds, and therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

"BB," "B," "CCC," "CC," "C," "DDD," "DD," and "D" - Bonds that possess one of these ratings are considered by Fitch to be speculative investments. The ratings "BB" to "C" represent Fitch's assessment of the likelihood of timely payment of principal and interest in accordance with the terms of obligation for bond issues not in default. For defaulted bonds, the rating "DDD" to "D" is an assessment of the ultimate recovery value through reorganization or liquidation.

To provide more detailed indications of credit quality, the Fitch ratings from and including "AA" to "C" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within these major rating categories.

IBCA assesses the investment quality of unsecured debt with an original maturity of more than one year which is issued by bank holding companies and their principal bank subsidiaries. The following summarizes the rating categories used by IBCA for long-term debt ratings:

"AAA" - Obligations for which there is the lowest expectation of investment risk. Capacity for timely repayment of principal and interest is substantial such that adverse changes in business, economic or financial conditions are unlikely to increase investment risk substantially.

"AA" - Obligations for which there is a very low expectation of investment risk. Capacity for timely repayment of principal and interest is substantial. Adverse changes in business, economic or financial conditions may increase investment risk albeit not very significantly.

"A" - Obligations for which there is a low expectation of investment risk. Capacity for timely repayment of principal and interest is strong, although adverse changes in business, economic or financial conditions may lead to increased investment risk.

"BBB" - Obligations for which there is currently a low expectation of investment risk. Capacity for timely repayment of principal and interest is adequate, although adverse changes in business, economic or financial conditions are more likely to lead to increased investment risk than for obligations in higher categories.

"BB," "B," "CCC," "CC," and "C" - Obligations are assigned one of these ratings where it is considered that speculative characteristics are present. "BB" represents the lowest degree of speculation and indicates a possibility of investment risk developing. "C" represents the highest degree of speculation and indicates that the obligations are currently in default.

IBCA may append a rating of plus (+) or minus (-) to a rating to denote relative status within major rating categories.

Thomson BankWatch assesses the likelihood of an untimely repayment of principal or interest over the term to maturity of long term debt and preferred stock which are issued by United States commercial banks, thrifts and non-bank banks; non-United States banks; and broker-dealers. The following summarizes the rating categories used by Thomson BankWatch for long-term debt ratings:

"AAA" - This designation represents the highest category assigned by

Thomson BankWatch to long-term debt and indicates that the ability to repay principal and interest on a timely basis is extremely high.

"AA" - This designation indicates a very strong ability to repay principal and interest on a timely basis with limited incremental risk compared to issues rated in the highest category.

"A" - This designation indicates that the ability to repay principal and interest is strong. Issues rated "A" could be more vulnerable to adverse developments (both internal and external) than obligations with higher ratings.

"BBB" - This designation represents Thomson BankWatch's lowest investment grade category and indicates an acceptable capacity to repay principal and interest. Issues rated "BBB" are, however, more vulnerable to adverse developments (both internal and external) than obligations with higher ratings.

"BB," "B," "CCC," and "CC," - These designations are assigned by Thomson BankWatch to non-investment grade long-term debt. Such issues are regarded as having speculative characteristics regarding the likelihood of timely payment of principal and interest. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation.

"D" - This designation indicates that the long-term debt is in default.

PLUS (+) OR MINUS (-) - The ratings from "AAA" through "CC" may include a plus or minus sign designation which indicates where within the respective category the issue is placed.

#### Municipal Note Ratings

A Standard and Poor's rating reflects the liquidity concerns and market access risks unique to notes due in three years or less. The following summarizes the ratings used by Standard & Poor's Ratings Group for municipal notes:

"SP-1" - The issuers of these municipal notes exhibit very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given a plus (+) designation.

"SP-2" - The issuers of these municipal notes exhibit satisfactory capacity to pay principal and interest.

"SP-3" - The issuers of these municipal notes exhibit speculative capacity to pay principal and interest.

Moody's ratings for state and municipal notes and other short-term loans are designated Moody's Investment Grade ("MIG") and variable rate demand obligations are designated Variable Moody's Investment Grade ("VMIG"). Such ratings recognize the differences between short-term credit risk and long-term risk. The following summarizes the ratings by Moody's Investors Service, Inc. for short-term notes:

"MIG-1"/"VMIG-1" - Loans bearing this designation are of the best quality, enjoying strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

"MIG-2"/"VMIG-2" - Loans bearing this designation are of high quality, with margins of protection ample although not so large as in the preceding group.

"MIG-3"/"VMIG-3" - Loans bearing this designation are of favorable quality, with all security elements accounted for but lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

"MIG-4"/"VMIG-4" - Loans bearing this designation are of adequate quality, carrying specific risk but having protection commonly regarded as



required of an investment security and not distinctly or predominantly speculative.

"SG" - Loans bearing this designation are of speculative quality and lack margins of protection.

Fitch and Duff & Phelps use the short-term ratings described under Commercial Paper Ratings for municipal notes.

</TABLE>