

RESOLUTION NO. 998

APPROVING STATEMENT OF INVESTMENT POLICY
NORTH COAST COUNTY WATER DISTRICT

WHEREAS, Section 53646 (a) of the Government Code requires that a statement of investment policy be submitted to the Board of Directors annually; and

WHEREAS, the General Manager has submitted a statement covering Calendar Year 2007, a copy of which is attached hereto as Exhibit A.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the North Coast County Water District as follows:

1. The statement of investment policy for Calendar Year 2007 is approved as submitted.
2. The General Manager is delegated the authority to deposit and invest District funds in accordance with law and the attached policy. The General Manager shall be, ex-officio, the "Treasurer" of the District for all purposes of Government Code Sections 53600-53683 dealing with the deposit and investment of local agency funds.

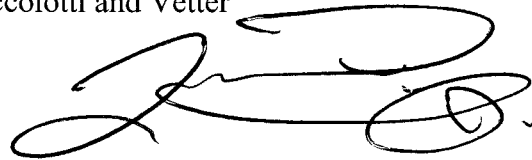
PASSED AND ADOPTED this 21st day of February, 2007 by the following vote:

AYES: Directors Brown, Cosgrove, DeJarnatt, Piccolotti and Vetter

NOES: None


ABSENT: None

ABSTAIN: None



President, Board of Directors
North Coast County Water District

ATTEST:



Secretary of Said Board

North Coast County Water District
Investment Policy Statement
February, 2007

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of North Coast County Water District ("the District") are based on state law and prudent money management. All funds will be invested in accordance with the District's Investment Policy and Section 53601 of the California Government Code. Bond funds will also be invested in accordance with Bond documents.

II. Scope

It is intended that this policy cover all funds and investment activities under the direction of the District.

III. Prudence

Investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds must act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

IV. Objectives

The primary objectives, in priority order, of the investment activities of the District shall be:

1) Safety. Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2) Liquidity. The investment portfolio of the District will remain sufficiently liquid to enable the District to meet its cash flow requirements.

3) Return on Investment. The investment portfolio of the District shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the General Manager who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The District may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

VI. Ethics and Conflict of Interest

District officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. District officers and employees must also comply with: 1) the District's Conflict of Interest Code; 2) Government Code 1090 and; 3) the Political Reform Act.

VII. Internal Controls

The District shall establish a set of internal controls which shall be documented in writing. The internal controls will be reviewed by the District and with the independent auditor. The controls shall be designed to prevent employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by officers or employees of the District.

VIII. Selection of Financial Institutions and Broker/Dealers

To provide for the optimum yield in the District's portfolio, the District's procedures shall be designed to encourage competitive bidding on transactions from an approved list of broker/dealers.

The General Manager, or the District's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. This list will be developed after a comprehensive credit and capitalization analysis indicates the firm is adequately financed to conduct business with public entities. It shall be the policy of the District to purchase securities only from those authorized institutions or firms.

IX. Permitted Investment Instruments

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency; provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical rating organization (NRSRO).
4. Repurchase Agreements used solely as short-term investments not to exceed 30 days.

The District may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VII. 1 and 2, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, 102 percent of the total dollar value of the money invested by the District for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

Market value must be calculated each time there is a substitution of collateral.

The District or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement. The District will have properly executed a PSA agreement with each counter party with which it enters into Repurchase Agreements.

5. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the top two highest rating category as provided for by a nationally recognized statistical rating organization (NRSRO).

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's investment portfolio. No more than 10 percent of the District's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

6. Commercial paper rated in the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the conditions in either paragraph (a) or paragraph (b) below:

- (a) The entity meets the following criteria:

- (i) Is organized and operating in the United States as a general corporation.
 - (ii) Has total assets in excess of five hundred million dollars (\$500,000,000).
 - (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical rating organization.

- (b) The entity meets the following criteria:

- (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - (ii) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
 - (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Purchases of eligible commercial paper may not exceed 270 days maturity and may not represent more than 10 percent of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25 percent of the District's investment portfolio.

7. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a nationally recognized statistical-rating service (NRSRO).

Purchase of medium-term corporate notes may not exceed 30 percent of the District's investment portfolio.

8. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code section 53561, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The District, at its discretion and by majority vote of the

Board of Directors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

9. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "A" or better by a nationally recognized statistical-rating service.

The District's Board of Directors and the General Manager or other officials of the District having legal custody of the District's money are prohibited from investing the District's funds, or funds in the custody of the District, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors or any person with investment decision making authority in the administrative office, manager's office, budget office, auditor-controller's office, or General Manager's office of the District also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee, or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the District's investment portfolio.

10. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$40 million and should be reviewed periodically.
11. San Mateo County Investment Pool
12. Insured savings account or bank money market account. In accordance with California Government Code Section 53635.2 to be eligible to receive local agency deposits a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.
13. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 15 percent of the investment portfolio of the District.

14. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated, by a nationally recognized rating

service, as "AA" or higher, and the issuer of the security must have an "A" or higher rating for its debt as provided by a nationally recognized rating service. No more than 20 percent of the agency's surplus funds may be invested in this type of security.

15. Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission; (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in California Government Code 53601 subdivisions (a) to (n), inclusive; (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000). This investment must be rated in the top rating category as provided for by a nationally recognized statistical rating organization (NRSRO).

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. The District may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below "A," the General Manager shall immediately notify the Board of Directors and will report to the Board, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

X. Ineligible Investments

The District shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

XI. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the District to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date.

XII. Reporting Requirements

The General Manager shall annually render to the Board a statement of investment policy, which the Board must consider at a public meeting. Any changes to the policy shall also be considered by the Board at a public meeting.

The General Manager shall render a quarterly investment report to the Board. The report shall include the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be submitted within 30 days following the end of the quarter covered by the report.

XIII. Performance Benchmark

The District will establish an appropriate performance benchmark. The District's portfolio performance, at the end of each quarter, will be compared to the benchmark. A review of the portfolio's characteristics, including the portfolio's performance compared to the benchmark, will be presented to the Board each quarter.

XIV. Safekeeping and Custody

The assets of the District shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

XV. Trading and Sales of Investments

Permitted Investments should be purchased with the intent of holding them until maturity. However, in an effort to increase the total return of the portfolio (and subject always to the investing objectives of this Policy), Permitted Investments may be sold prior to their maturities when economic circumstances warrant a sale of the securities to enhance the District's overall portfolio yield. If any investment manager sells a Permitted Investment for the District that results in a loss, the investment manager shall report such loss to the General Manager.