PURISSIMA HILLS WATER DISTRICT

STATEMENT OF INVESTMENT POLICY

PURPOSE

This statement provides guidelines for the prudent investment and cash management of the District's funds.

OBJECTIVE

The District's cash management system is designed to monitor and forecast accurately expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible. The District's primary objective is to safeguard the principal of the funds; the second objective is to meet the liquidity needs of the District; and the third objective is to achieve a return on the invested funds.

POLICY

At all times, the District shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 et seq.). The District shall conduct its investments under the "prudent investor standard": When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing 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 District. (California Government Code Section 53600.3).

The General Manager of the District shall serve as the District's trustee for purposes of placing investments pursuant to this policy. The policy shall be reviewed periodically by the District's Board of Directors at a public meeting. (California Government Code Section 53646(a)).

1. **Criteria for Selecting Investments.** Criteria for selecting investments and the order of priority are:

   a. **Safety.** The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The District shall operate only in those investments that are considered very safe.

   b. **Liquidity.** An adequate percentage of the portfolio should be maintained in liquid short-term investments which can be converted to cash if necessary to meet projected cash flow requirements. A short-term investment is defined as any investment which matures within a one year period.

   c. **Yield.** Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

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2. **Delivery of Securities.** Securities shall be delivered by book entry, physical delivery or by third party custodial agreement. (California Government Code Section 53601).

3. **Diversification.** The portfolio should consist of a mix of authorized types of investments described in this policy. As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.

4. **Terms of Investments.** Except for public statutory exceptions or when authorized by the Board of Directors either specifically or as part of an investment program no less than 3 months prior to the investment, no investment shall be made in a security with a term remaining to maturity in excess of five years. (California Government Code Section 53601).

5. **Deposit of Funds.** As far as possible, all money belonging to or in the custody of the District including money paid to the District to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (California Government Code Section 53635.2). Pursuant to California Government Code Sections 53637, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

The District's funds may also be invested in the instruments set forth in Sections 6 and 7 below.

6. **Allowable Investment Instruments.** The District may invest in the investment instruments authorized by the California Government Code, subject to any conditions set forth in the California Government Code. Without prior Board approval, the General Manager shall limit the investment instruments utilized to the following:

   a. 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.

   b. Negotiable certificates of deposits issued by a nationally or state-chartered bank or a savings association or a state or federal credit union or by a state-licensed branch of a foreign bank.

7. **Local Agency Investment Fund.** In addition to the investment instruments set forth in Section 6, the General Manager may invest in the Local Agency Investment Fund pursuant to California Government Code Section 16429.1.

8. **Prohibited Investments.** The District shall not invest any funds in inverse floaters, range notes or mortgage-derived interest-only strips that are derived from a pool of mortgages. The District shall not invest any funds in any security that
could result in zero interest accrual if held to maturity. The limitation does not
apply to investments in shares of beneficial interest issued by diversified
management companies as set forth in California Government Code Section
53601.6.

REPORTING

At least quarterly, the General Manager shall submit an investment report to the Board of
Directors within 30 days of the end of the quarter. The report shall include the following
information:

1. type of investment, issuer, date of maturity, par and dollar amount invested in all
   securities, investments and money held by the District;

2. description of any of the District's funds, investments or programs that are under
   the management of contracted parties, including lending programs;

3. for all securities held by the District or under management by any outside party
   that is not a local agency or the State of California Local Agency Investment
   Fund, a current market value as of the date of the report and the source of this
   valuation;

4. statement that the portfolio complies with the Investment Policy or the manner in
   which the portfolio is not in compliance; and

5. statement that the District has the ability to meet its projected cash flow
   requirements for the next six months or provide an explanation as to why
   sufficient money shall or may not be available.

If the District places all of its investments in the Local Agency Investment Fund, Federal Deposit
Insurance Corporation-insured accounts in a bank or savings and loan association or county
investment pool (or any combination of these three), the General Manager can simply submit, on
at least a quarterly basis, the most recent statements from these institutions to meet the
requirements of items 1-3 above, with a supplemental report addressing items 4 and 5 above.
(California Government Code Section 53646(b)-(e)).
RESOLUTION NO. 2007-2

APPROVING THE STATEMENT OF INVESTMENT POLICY

PURISSIMA HILLS WATER DISTRICT

WHEREAS, the District is required to adopt a Statement of Investment Policy and to review it periodically; and

WHEREAS, the General Manager and the Attorney reviewed the Statement of Investment Policy and updated it to be consistent with statutory requirements and District practices; and

WHEREAS, staff recommends that the Board approve the Statement of Investment Policy that is attached to this Resolution.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Purissima Hills Water District that the attached Statement of Investment Policy is approved as submitted.

PASSED AND ADOPTED this 14th day of March, 2007 by the following vote:

AYES: Directors Anderson, Jones, Seidel, Solomon, and Waldeck

NOES: None

ABSENT: None

[Signature]
President, Board of Directors
Purissima Hills Water District

ATTEST:

[Signature]
Secretary of the District