TRUCKEE MEADOWS WATER AUTHORITY

Quality. Delivered.

Truckee Meadows Water Authority Investment Policy

TMWA BOARD OF DIRECTORS
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I INTRODUCTION

The Truckee Meadows Water Authority (TMWA) has on balance, significant amounts of restricted and unrestricted cash resources at any one time. The goal is to invest these funds to obtain suitable rates of return on investments, in a safe and prudent manner. The purpose of this policy is to establish guidelines that will govern the investment activities of TMWA and to establish a formal reporting policy to the Board of Directors.

Upon final approval by the TMWA Board, this policy can only be amended by a majority vote of the TMWA Board of Directors.

This policy will ensure the prudent investment of TMWA financial resources, adherence to Nevada Revised Statutes applicable to the investment of public funds, maintenance of daily liquidity requirements, anticipation of future cash requirements and realization of a competitive rate of return on investments. This policy supersedes and replaces all prior TMWA investment policies.

II STEWARDSHIP

This policy applies to all restricted and unrestricted monies held by TMWA. TMWA is authorized to use alternative investments such other governmental investment pools if the rate of return performance warrants such investment alternatives. Otherwise TMWA can utilize the expertise of outside registered independent investment advisors in the management of an active portfolio of permitted investments and to provide recommendations on investment alternatives.

The standard of care shall be governed by the prudent person standard, embodied in NRS 355.145, which will be applied while conducting all investment transactions:

> "The TMWA General Manager, Treasurer, and Chief Financial Officer who have responsibilities for investing TMWA monies shall exercise the judgment and care, under the circumstances then prevailing, which a person of prudence, discretion and intelligence exercises in the management of their own affairs, not in regard to speculation, but in regard to the investment of their money, considering the probable income as well as the probable safety of their capital."

Authorized investment officers and staff who act in accordance with this policy and procedures in the management of TMWA monies and who exercise the proper due diligence will have no personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported and preventative action taken to control adverse developments.

III OBJECTIVES

There are three major objectives in the investment of public monies which listed in the order of importance, are integral to managing various investments risks. Investment risks include but are not limited to market risk, liquidity risk, credit risk, reinvestment risk, collateral risk, and rate volatility risk.

Safety: Safety of principal is the foremost objective of the investment program. Investments by TMWA shall be undertaken to ensure the preservation of principal in the portfolio.

Liquidity: TMWA will remain sufficiently liquid to allow for the normal withdrawals by participants. Sufficient portion of the portfolio will be maintained in overnight securities to meet immediate cash needs to cover operating expenses and pending water right purchases.

Return on Investment: TMWA will invest monies in a manner to obtain a reasonable rate of return on investments considering long term liquidity requirements based upon cash demand projections. TMWA will prepare a drawdown schedule at least annually to model an investment portfolio.

IV ETHICS

All investment staff will act responsibly as custodians of public funds. The staff will refrain from personal business activity that could conflict with the proper execution of the investment program or that could impair their ability to make impartial investment decisions.

V INVESTMENT PROCEDURES

TMWA will prepare a drawdown schedule at least annually for purposes of developing an investment plan for unrestricted cash to be used by operations and by the most recent capital spending plan which may be different from the annual budget and other capital spending plans. Particular to TMWA is reserving adequate amounts of cash to make water right purchases on an as needed basis. This is accomplished by monitoring water right purchase activity.

This drawdown schedule will project cash inflows and outflows on a weekly basis. Special care in maintaining liquidity will be of particular importance to avoid forced liquidation of investment securities. TMWA will not invest beyond five years unless cash flow projections warrant the alternative. Due to rate volatility, investments may experience unrealized losses and gains at any given point in time. TMWA will not prematurely liquidate investments unless liquidity is required. TMWA will make every effort to hold investments to maturity. Securities may be sold at either a gain or loss prior to maturity if the TMWA or the external investment advisor deems the sale to be in the best interest of the overall portfolio and is in accordance with the investment strategy. If TMWA experiences greater than planned cash resources, TMWA can prepare a revised drawdown schedule and invest in such a manner to meet cash demands or invest in shorter maturities based upon breakeven analyses if investing in shorter term securities is justified.

VI AUTHORIZED FINANCIAL INSTITUTIONS AND ADVISORS

TMWA will maintain relationships with banking and financial institutions that are authorized to provide investment services and custody arrangements and are organized and operating, or licensed to operate in the United States under federal or state laws. TMWA may contract with external investment advisors and may rely on the authorized list of broker/dealers of the investment advisor.

VII PERMITTED INVESTMENTS

TMWA will only invest its funds in compliance with the provisions of NRS 355.170 which sets forth investments authorized to be made by local governments, or as otherwise allowed by law for a joint powers authority. TMWA shall be authorized to invest in the following:

A United State Treasury Bills, Notes and Bonds

B United State Government Agency Securities

C. Agency Issued Mortgage Backed Securities FNMA, FHLMC, GNMA

D. Corporate Notes

1. Rating must be “A” or its equivalent or better by a nationally recognized statistical rating organization (NRSRO)
2. Maximum maturity of five (5) years
3. Aggregate par value may not exceed 20% of the total par value of the total investment portfolio

E. Money Market Mutual Funds

1. Only SEC registered 2(a)-7 funds are eligible
2. Rating must be “AAA” or its equivalent by an NRSRO
3. Invest only in securities issued by the Federal Government or agencies of the Federal Government or in repurchase agreements fully collateralized by such securities
4. Funds must maintain a $1 Net Asset Value

F. Negotiable Certificates of Deposit

1. Issued by commercial banks
2. Issued by insured savings and loan associations
3. Issued by insured credit unions
4. Maximum maturity of five (5) years
5. Maximum aggregate position of 20% of portfolio

G. Repurchase Agreements

1. Executed with a qualified counterparty
2. Comply with other requirements of NRS 355.170(2)
3. Must be collateralized at 102% or higher
4. The date on which the securities are to be repurchased must not be more than 90 days after the date of purchase

H. Commercial Paper

1. Rating must be “A-1”, “P-1”, equivalent or better by an NRSRO
2. Maximum maturity of 270 days
3. Aggregate par value may not exceed 20% of the total par value of the total investment portfolio

I. Bankers Acceptances

1. Rating must be “A-1”, “P-1”, equivalent or better by an NRSRO
2. Maximum maturity of 180 days
3. Aggregate par value may not exceed 20% of the total par value of the total investment portfolio

J. Long Term Forward Sale Contracts and Guaranteed Investment Contracts

1. The FSC or GIC is invested with a commercial bank or credit union, which is organized and operating or licensed to operate in the United State under federal or state law with a credit rating on its outstanding long term debt of not less than “A2” by Moody’s Investor Services, Inc. or “AA” by Standard & Poors Rating Services, or their equivalent

2. Maintains appropriate collateral which are securities of the Federal government or agencies of the Federal Government for the protection of principal equal to or greater than 102% of the principal invested.

3. TMWA receives a security interest in the collateral that is fully perfected and the collateral is held in custody for TMWA by a third-party agent of TMWA which is a commercial bank authorized to exercise trust powers

K Long Term and Short Term Local Government Investment Pool (LGIP) of the State of Nevada

L. Municipal Securities

1. Negotiable note(s) in medium-term obligations issued by local governments of the State of Nevada pursuant to NRS 350.087 to 350.095, and subject to NRS 355.177 which prohibits a local government from investing in its own securities of any kind or interim warrants from any source.
2. The interest on such obligations must be exempt from gross income for federal income tax purposes.
3. Such obligations must be rated "A" or higher by one or more nationally recognized bond credit rating agencies.

M Asset-backed Securities

1. Rating must be "AAA" or its equivalent by an NRSRO
2. Maximum maturity of five (5) years

VIII SAFEKEEPING/CUSTODY AND DELIVERY

A. Securities purchased by TMWA as well as collateral for repurchase agreements will be delivered against payment and held in a custodial safekeeping account with an approved financial institution acting as a third party custodian.

B. If TMWA enters into Master Securities Custody Services and these services encompass the following functions:

1. The settlement of all purchase, sales, and calls through the Federal Reserve System (Fed) or the Depository Trust Company (DTC)
2. The collection and distribution of all interest payments
3. The facilitation of all trading activity conducted by investment managers and securities lending agent.
4. Provide daily accounting of all investment accounts, and month end reports that show a detailed list if holdings with market evaluations.

IX PORTFOLIO GROUP STRATEGY AND DIVERSIFICATION

TMWA shall view its investment structure in two distinct groups:

Group A - Near Term Cash Flow

To be based on cash flow needs for the next 18 months based upon near term operational cash flows and capital needs. Investments will mature in 1 year or less for liquidity. These will typically consist of Money Market Funds, Treasury Notes, Agency Notes, Certificates of Deposit, Repurchase Agreements, Commercial Paper, Bankers Acceptances, and LGIP.

Group B – Core Portfolio

To be based on long term capital growth and planned cash requirements greater than 18 months. Investments will mature 1 to 5 years and may consist of all Permitted Investments outlined in Section VII.

A. Securities held by TMWA or by TMWA's custodians will be diversified to eliminate risk of loss from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following diversification limitations shall be imposed:

    1. With the exception of United States Treasury securities, United States governmental agency securities, and repurchase agreements, no more than 20 percent of the total par value of the portfolio will be invested in a single security type.

    2. No more than 40 percent of the total par value of the portfolio will be invested in any combination of negotiable certificates of deposit, commercial paper, and corporate notes

B. TMWA shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type; excluding U.S. Treasuries, federal agencies, and pooled investments such as money market funds or local government investment pools.

X MATURITIES

A. Liquidity: The portfolio shall be structured to provide liquidity to meet projected cash flow requirements. Portfolio management will require a periodic assessment of cash flow requirements on a continual basis and also on a quarterly basis with respect to forecasting drawdown requirements.

B. Market Risk: Market risk relates to the constant price fluctuations of securities that may result in a loss to TMWA if cash flow requirements force a premature sale.

C. Portfolio maturities must be structured to avoid the forced sale of securities in any but the most severe circumstances. The projection of a "Minimum Liquidity Requirement" as defined by drawdown schedules will be enforced to ensure that money is available to meet the short-term operating needs of TMWA.

XI INVESTMENT PERFORMANCE

TMWA will invest to attain a reasonable return while maintaining a high-quality, secure portfolio with sufficient liquidity to meet cash flow requirements. TMWA must meet funding requirements of operating expenses, capital spending, and funding of principal and interest payments on TMWA's outstanding debt. Rate of return on investments can be greatly influenced by prevailing economic conditions.

XII ACCOUNTING AND REPORTING

TMWA will report investment results to the Board of Director's semiannually within 60 days of the close of a calendar quarter ending on December 31 and June 30 . These results will include investments transactions, securities holdings, calculate yield to maturity, and average portfolio life and calculate portfolio earnings.

XIII INTERNAL CONTROLS

TMWA's investments are subject to audit by TMWA outside external financial auditors. TMWA maintains a system of internal controls to monitor investment transactions and associated activities. These controls are created to safeguard against fraud, investment decision errors, or other actions that could result in a loss of TMWA's money

XIV SECURITIES LENDING

TMWA has not engaged in securities lending and has no intent to engage in securities lending. Securities lending is permitted pursuant to Nevada Revised Statutes under certain conditions. If TMWA engages in securities lending TMWA will revise this investment policy to incorporate constraints on securities lending pursuant to state statute.

XV GLOSSARY

ASSET-BACKED SECURITIES are securities in which its income payments and value is derived from and collateralized or "backed" by a specified pool of underlying assets such as receivables. Investors of these securities receive the principal and interest payments of the underlying loans.

BANKERS ACCEPTANCES are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity.

An acceptance is a high-grade negotiable instrument. Acceptances are purchased in various denominations for 30 to 270 days. The interest is calculated on a 360 day discount basis similar to Treasury Bills.

CERTIFICATES OF DEPOSIT

Negotiable Certificates of Deposit are large-denomination CDs issued in $1 million increments. These securities have average trades in the secondary market of $5 million to $10 million. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs) and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.

Non-Negotiable Certificates of Deposit are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for those instruments, therefore, they are not liquid. They are classified as public deposits and financial institutions are required to collateralize them. Generally, financial institutions use mortgages to collateralize these deposits. Non-negotiable CDs of $250,000 are insured respectively by the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Share Insurance Fund (NCUSIF).

COLLATERAL is securities, evidence of deposits or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTAGE OBLIGATIONS (CMOs), a type of mortgage-backed security, are bonds that represent claims to specific cash flows from large pools of home mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests, known as tranches, according to a complicated deal structure. Each tranche may have different principal balances, coupon rates, prepayment risks, and maturity dates.

COMMERCIAL PAPER is a short term, unsecured, promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing. Eligible commercial paper is issued by corporations organized and operating within the United States and having total assets in excess of $500 million. This would include firms such as American Express, Bank of America, Wells Fargo Bank, et cetera.

CORPORATE NOTES are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest. Corporate notes can be rated by one or more Nationally Recognized Statistical Rating Organizations (NRSRO), with ratings of AAA, AA+, AA, AA-, etc. or their equivalent. Frequent issuers of corporate notes are General Electric Capital Corp., Bank of America, J.P. Morgan, AT&T, Wal-Mart and IBM.

FEDERAL AGENCY INSTRUMENTS are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

FEDERAL GOVERNMENT means the United States, or any agency, instrumentality or corporation thereof.

ISSUER means any corporation, governmental unit or financial institution that borrows money through the sale of securities.

LIQUIDITY refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked price is narrow and reasonably sized trades can be done at those quotes. U.S. Treasury bills are very liquid.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP) is operated by the Nevada State Treasurer and are pooled state and local government funds under State of Nevada law.

MATURITY is the date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET FUNDS are shares of beneficial interest issued by diversified management companies. Money market funds strive to maintain a stable net asset value (NAV) per share of $1.00. Money market funds must adhere to Rule 2a-7 of the SEC that regulates the liquidity and credit minimums and sector allocation limitations to protect the investors in money market funds. These funds invest primarily in money market securities with final maturities of 397 days or less to maintain a weighted average maturity of 60 days or less.

NEGOTIABLE is the term used to designate a security, the title to which is transferable by delivery.

PORTFOLIO is the term used to describe the collection or group of securities owned by an investor.

PRINCIPAL describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

REPURCHASE AGREEMENTS are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

U.S. TREASURY ISSUES are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

Treasury Bills are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.

Treasury Notes have original maturities of one to ten years.

Treasury Bonds have original maturities of greater than 10 years.

Treasury Inflation Protected Securities (TIPS) pay principal and interest based on changes in the rate of inflation as measured by the CPI-U index.