



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 TMWA's Technical Advisory Committee and Board of Directors. TMWA's Technical Advisory Committee has three members who are the Finance Directors for the City of Reno, City of Sparks and Washoe County. These persons have the necessary qualifications to independently review TMWA's investments and provide guidance to TMWA in this area.

Upon final approval by the TMWA Board, this policy can only be amended by a majority vote of the TMWA Board of Directors once changes are reviewed and approved by TMWA's Technical Advisory Committee.

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.

II STEWARDSHIP

This policy applies to all restricted and unrestricted monies held by TMWA. This policy does not cover cash that are held for retirement purposes in a multi-employer retirement plan such as Public employees Retirement System PERS or a post retirement health care trust. If investments of bond proceeds are governed by bond trust documents then these monies are not considered part of this policy. TMWA is authorized to use alternative investments such other governmental investment pools if the rate of return performance warrants such investment alternatives. Other wise 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 his money, considering the probable income as well as the probable safety of his 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 to meet weekly obligations. 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 two years. Due to rate volatility, investments may experience unrealized losses and gains. TMWA will not prematurely liquidate investments unless liquidity is required. TMWA will make every effort to hold investments to maturity. 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.

A. Primary dealers or other dealers which qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule, which are registered to conduct business in the State of Nevada. For Broker/Dealers TMWA will require three price quotes from a pool of brokers, and an brokerage agreement will be executed prior to any transactions taking place. TMWA will require a recent copy of the financial institution's/broker dealer's financial statements to be maintained on file with TMWA.

B. TMWA will encourage all qualified financial institutions providing investment services in the State of Nevada, including those owned by women, minorities, and/or physically impaired to respond to any Requests for Qualifications (RFQs). Consideration will be given to all qualified institutions when their services are competitive on a national basis.

C. If TMWA has engaged the services of an independent registered investment advisor, TMWA can rely on the advisory firm's approved broker/dealer list. This list will be made available to TMWA upon request.

VII PERMITTED INVESTMENTS

TMWA, in accordance with the provisions of NRS 355.170 and this policy, is authorized to invest monies of TMWA in:

- A. United State Treasury Bills, Notes and Bonds
 - 1. Maximum maturity: of two years from date of purchase.
- B. United State Government Agency Securities

These are 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. Examples are as follows:

1. Fannie Mae
2. Federal Agricultural Mortgage Corporation
3. Federal Farm Credit Bank
4. Federal Home Loan Bank
5. Federal Home Loan Mortgage Corporation
6. Government National Mortgage Association
7. Maximum maturity of two (2) years
8. Student Loan Marketing Association

1. Maximum maturity of two (2) years from date of purchase

C. Corporate Notes

1. Rating must be "AA" or its equivalent or better by two nationally recognized statistical rating organizations (NRSRO)
2. Maximum maturity of two (2) years from date of purchase.

D. Money Market Mutual Funds

1. Only SEC registered 2(A) 7 funds are eligible
2. Rating must be "AAA" or equivalent by at least two NRSROs.
3. Investments must only be:
 - a) United States Treasury or Federal agency securities
 - b) Master notes, bank notes, or commercial paper rated "A-1", "P-1" or its equivalent or better by a NRSRO, issued by a corporation organized and operating or by a depository institution licensed by the United States, or any state, and operating in the United States.
 - c) Repurchase Agreements collateralized by the securities in f-3a, and f-3b
4. Funds must strive to maintain constant net asset value of \$1
5. Maximum amount permitted: Aggregate par value may not exceed 20% of the total par value of the total investment portfolio.

E. Negotiable Certificates of Deposit

1. Issued by commercial banks
2. Issued by insured savings and loan associations

3. Issued by insured credit unions
4. Rating must be "a-1", "P-1" or equivalent or better
5. Maximum maturity of one (1) year from date of purchase
6. Maximum amount permitted: Aggregate par value may not exceed 20% of the total par value of the total investment portfolio. Not 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.

F. Repurchase Agreements

1. Executed with a qualified counterparty,

G. Commercial Paper

1. Rating must be "A-1", "P-1", equivalent or better.
2. Maximum maturity of 270 days
3. Aggregate par value may not exceed 20% of the total par value of the total investment portfolio available to TMWA

H. Bankers Acceptances

1. Issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve system, the short-term paper of which is rated "A-1", "P-1" or its equivalent, or better, as provided for by a NRSRO.

I. Long Term Forward Delivery Agreements

1. The FDA 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. And the Forward Delivery Agreement must comply with Chapter 355 of the NRS.

2. The investments made pursuant to a Forward Delivery Agreement are permitted investments consistent with those allowed by NRS 355.170.

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

4. TMWA, in accordance with the aforementioned conditions, may have up to 90% of the invested portfolio in these types of investments if market conditions warrant.

J. Long Term and Short Term Local government Investment Pool of the State of Nevada

K. Collateralized Mortgage Obligations

1. Rating must be "A-1", "P-1", its equivalent or better by two NRSROs
2. Final Cash flow Payment date will not exceed two (2) years assuming a zero (0) pre-payment speed
3. Underlying collateral must be United States Government Securities
4. Certain risks should be examined before investment in these instruments such as exposure to interest only mortgages and other potentially higher risk mortgage products that may make this type of investment not suitable to TMWA
5. Maximum amount permitted: Aggregate par value may not exceed 20% of the total par value of the total investment portfolio.

TMWA will **not** invest in Asset-Backed Securities (ABS), even though this investment is a permitted investment pursuant to NRS 355.171.

Notwithstanding the aforementioned permitted investments and provisions of this policy; if any part of this policy is not compliant with state statute, or federal securities laws, then the applicable state statutes and federal securities laws will prevail. As such, investments will be changed in accordance with state statute and securities laws, and this policy will be modified and brought back to the TMWA Board for approval.

VIII COLLATERALIZATION

A. Repurchase Agreements

1. TMWA may enter into Repurchase Agreements with primary dealers in US 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 US Treasury securities or Federal Agency securities, as described in A and B, will be acceptable collateral. All securities underlying the repurchase Agreements must be delivered to TMWA's custodial 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% of the total dollar value of the money invested by TMWA 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 the repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Market value must be calculated each time there is a substitution of collateral, TMWA or its trustee shall have the perfected first security interest under the Uniform Commercial Code in all securities subject to the Repurchase Agreement.

TMWA will have properly executed a PSA agreement with each counter party with which it enters into a Repurchase Agreements.

IX 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 of holdings with market evaluations.

X DIVERSIFICATION

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.

XI MATURITIES

A. Liquidity: to the extent practical, investment of maturities must match normal cash flow requirements of TMWA. 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.

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.

XII INVESTMENT PERFORMANCE

TMWA cash will be invested to attain a reasonable return on investment consistent with cash flow requirements and risk constraints. 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. TMWA maintains a conservative, "buy and hold" investment strategy, which incorporates the matching of maturing securities to cash requirements of TMWA. TMWA will try to achieve yields benchmarked against the 3 month United States Treasury bill yield.

XIII ACCOUNTING AND REPORTING

TMWA will report investment results to the Technical Advisory Committee and the TMWA Board of Director's within 60 days of the close of a calendar quarter beginning with the calendar quarter ending June 30, 2005. These results will include investments transactions, securities holdings, calculate yield to maturity, and market value.

XVII 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.

XVIII 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.