

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra Winqest
District General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: Investment Report for the Quarter ended June 30, 2021

DATE: August 10, 2021

I. RECOMMENDATION

Staff recommends that the Board of Trustees receive a report summarizing treasury and investment activity for the period ending June 30, 2021. This is an informational report and, as such, no Board action is required.

II. BACKGROUND

The District manages its cash and investments consistent with the statutory requirements contained in applicable provisions of NRS 355 and 356, as well as Board Policies 10.1.0 and 11.1.0 and Board Practice 11.2.0.

Specifically, Board Practice 11.2.0 establishes that the District's Investment Officer provide 1) quarterly reports to the Board of Trustees on the performance of the District's investments as well as 2) an annual report, prepared no later than 60 days after the close of the fiscal year, summarizing the investment portfolio's performance during the preceding twelve months and indicating areas of concern with respect to policy and investment strategy matters, to include recommended corrective actions.

This report has been prepared to serve as the investment report for the quarter and fiscal year ending June 30, 2021. While Staff has been unable to ascertain the time frame for which the Board previously received a formal Investment Report, as contemplated in Board Practice 11.2.0, Section 15, Staff intends to commence providing quarterly Investment Reports to the Board of Trustees to comply with current Board policy as well as conform to best practices related to reporting of investment and cash management activities.

The District's funds are to be managed consistent with the District's investment policy (Board Policy 11.1.0 and Board Practice 11.2.0), as well as requirements of NRS 355.170 (re authorized investments). Specifically, as a public agency, the primary objective of the treasury function should be a) safety (i.e. preservation of principle), b) liquidity (i.e. ensure that the District is able to meet its cash flow obligations) and, lastly, c) yield (i.e. seek to achieve a market rate of return on its investments) consistent with the restrictions related to authorized investments and without compromising the primary goals of safety and liquidity (see Board Policy 11.2.0 section 3).

The District manages its cash and investments through participation in the State of Nevada Local Government Investment Pool (LGIP) program, an investment account held through Wells Fargo Securities, and cash held in the District's bank account(s), established with Wells Fargo Bank, NA.

The State's LGIP program is a pooled-investment fund, managed by the State Treasurer's Office. The District has historically utilized the LGIP for purposes of short-term investment of funds that support the liquidity and cash flow needs to meet District obligations, and currently maintains four separate LGIP accounts (IVGID, EPA/SRF, Public Works and TRPA). The District's participation in the LGIP program is authorized by Board Policy 10.1.0.

The District's account with Wells Fargo Securities has been established for funds that may be invested over a period of 6-months to 5-years (or more), and also includes a money market account holding funds not currently held through investment instruments.

The District utilizes Wells Fargo Bank, NA, for its banking services and currently has four separate accounts (Operating Checking, Payroll, Flexible Spending and Health Savings).

III. DISCUSSION

Authority for management of the District's investment program is delegated to the Director of Finance via Board Policy 11.2.0 (section 4). The current Director of Finance was hired in March 2020, and since that time, the portfolio has been passively managed, resulting in a significant increase in the liquidity of the overall treasury portfolio.

With historically low interest rates over the past 16 months, maturing securities and Certificates of Deposit (CD's) have been rolled into the money market segment of the District's portfolio, managed by Wells Fargo Securities. In addition, the cash balances in the District's primary operating checking account have also increased

significantly. While the increase in liquidity has impacted interest earnings across the portfolio, this impact is largely mitigated, again, by the historically low interest environment that has characterized the past 12-18 months.

The following table summarizes the period-ending balances in each of the District's cash and investment accounts as of June 30, 2021, as well historical balances for the preceding four quarters:

Summary of Cash and Investments as of June 30, 2021

Incline Village General Improvement District Investment Summary For the Quarter Ended June 30, 2021					
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
State Treasurer's Local Government Investment Pool					
Local Government Investment Pool (LGIP) Accounts					
IVGID GID	\$ 10,916,394	10,898,452	10,890,708	10,897,796	13,187,048
IVGID EPA SRF	230,527	230,154	229,990	229,778	229,223
IVGID Public Works	4,486,139	5,127,253	5,123,613	5,118,876	5,106,514
IVGID TRPA	230,667	230,564	230,440	230,186	229,631
IVGID Workers' Comp	-	-	-	-	-
Sub-Total LGIP	\$ 15,863,727	\$ 16,486,423	\$ 16,474,751	\$ 16,476,636	\$ 18,752,416
Investment Portfolio (Wells Fargo Securities)					
Money Market	\$ 14,562,109	12,265,738	10,967,938	8,144,050	5,821,442
Certificates of Deposit	5,038,830	7,322,109	8,616,794	11,419,037	13,728,997
Securities	-	-	-	-	-
Sub-Total Investments	\$ 19,600,939	\$ 19,587,847	\$ 19,584,732	\$ 19,563,087	\$ 19,550,439
Bank Accounts					
Wells Fargo Bank, NA					
IVGID - Holding Account	\$ 243,512	243,415	243,319	243,221	243,123
IVGID - Flexible Spending Account	5,806	5,310	5,310	14,968	9,059
IVGID - Operating Checking	9,897,222	8,710,403	4,076,625	3,741,629	2,028,104
IVGID - Payroll Account	-	-	-	-	-
IVGID - St. Mary's Health Reimbursement Account	36,016	46,819	16,239	28,519	18,960
Sub-Total Bank Accounts	\$ 10,182,556	\$ 9,005,947	\$ 4,341,493	\$ 4,028,337	\$ 2,299,247
TOTAL CASH AND INVESTMENTS	\$ 45,647,222	\$ 45,080,217	\$ 40,400,976	\$ 40,068,060	\$ 40,602,102

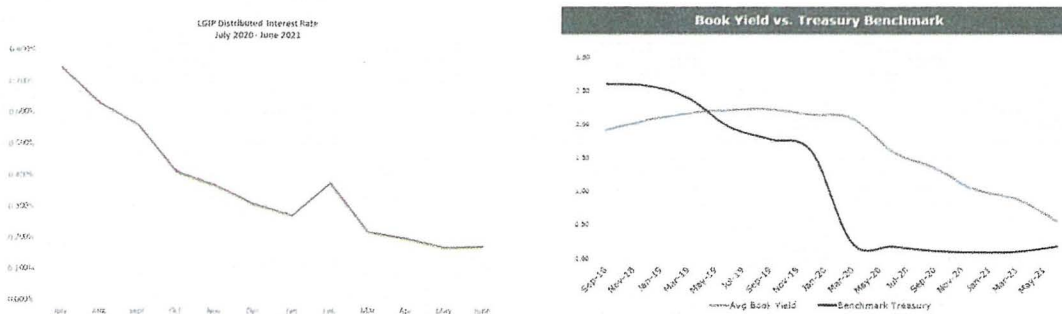
A summary of the District's holdings within the investment account with Wells Fargo Securities, reported at par value as of June 30, 2021, is provided in Attachment A of this report.

Performance for the quarter ending June 30, 2021 Relative to Benchmark(s)

The yield on the District's invested funds for the quarter ending June 30, 2021 was 0.609%, which compares favorably to the performance benchmark of 0.07% (1-year Treasury Index). The District's yield for the fourth quarter reflects the yields for the funds held in the LGIP fund (0.198%) and the yield for the funds held in the Wells Fargo Securities portfolio (0.949%). The following table summarizes the yields for each quarter of the fiscal year:

	Q1	Q2	Q3	Q4
Wells Securities	1.438%	1.582%	0.981%	0.949%
LGIP	0.804%	0.451%	0.315%	0.198%
Compined (Portfolio & LGIP)	1.141%	1.063%	0.678%	0.609%

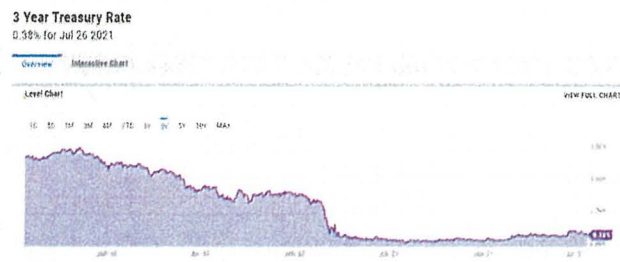
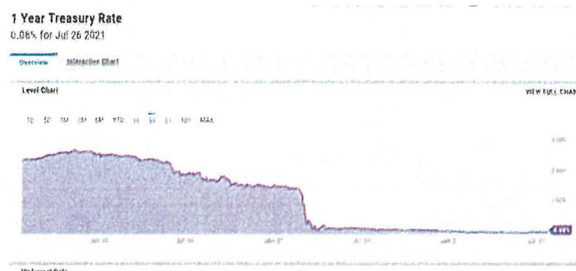
The following charts demonstrate the recent trends in interest rates for the State’s LGIP funds, as well as the District’s investment portfolio, relative to the Treasury benchmark.



Investment Outlook and Strategy

As noted, the past 18 months has been characterized by an historically low interest rate environment. This has resulted in a sharp decline in yields across the short-to medium-term yield curve for U.S. Treasuries, and the markets have reacted by exercising a “call” on securities with above-market interest.

U.S. Treasury Yield Rates				
	3 mos	6 mos	1 yr	3 yr
9/30/2021	0.10	0.11	0.12	0.16
12/31/2020	0.09	0.09	0.10	0.17
3/31/2021	0.03	0.05	0.07	0.35
6/30/2021	0.05	0.06	0.07	0.05



This has been a contributing factor to the increase in the liquidity position of the District’s portfolio (average maturity of 0.1 years as of June 30, 2021).

A major focus of treasury activities over the next 6 months will be the re-investment of District funds within a portfolio structured so as to meet the cash flow and liquidity needs of the District, while also ensuring compliance with NRS requirements as well as the District’s Investment Policy objectives that prioritize safety and liquidity of invested funds. At the same time, the goal of the investment strategy is to maintain flexibility to take advantage of interest earnings

opportunities without over-committing to long-term investments in the current interest rate environment.

The re-positioning of the District's investment portfolio will necessarily be informed by an updated analysis of both short-term and long-term cash flow requirements.

Typically, a public agency cash management and investment strategy entails:

- 1) Establishing adequate liquidity and coverage ratios - ensures 2x or 3x coverage of short-term cash flow requirements; informs funds to be maintained in overnight money-market funds (bank and LGIP)
- 2) Gradual re-investment of funds not needed for short-term cash flow in a "laddered" approach (i.e. spread over 6-month, 1-year, 3-year and 5-year instruments;
- 3) and doing so in a matter that ensures diversification of holding across securities and sectors to mitigate both interest rate and sector risk across the portfolio.

Review and Update of Board-approved Investment Policy and Practices related cash management

The Board policies and practices related to management of the District's investments were last updated in 2008. At a minimum, the policies should be reviewed (if not updated) on an annual basis to ensure that the policies and practices continue to meet the District's needs while ensuring compliance with applicable statutory requirements for management of public funds.

A review of the District's current policies and practices suggests two primary areas warranting review and update. These include:

- 1) Clarification and update of the "benchmarks" used to compare performance of the District's investments and
- 2) Consideration of adding policy or practice language related to diversification (or concentration) of securities held within the District's portfolio.

Attachments

- Attachment A – Holdings as of June 30, 2021
- Board Policy 10.1.0 – Use of Local Government Investment Pools
- Board Policy 11.1.0 – Investment Management
- Board Practice 11.2.0 – Investment Management

Attachment A

Positions by Sector

ID	CUSIP	Issuer	% Port	Cpn	Final Maturity	Moody's	S&P	Net Call Date	Call Type	Par	Acquired Date	Acquired Price	Book Price	Market Price	G / L	Book Yield	Market Yield	WAM	EFF Dur	EFF Crs
2	030070K51	ALLY BANK	1.3%	2.10	07/12/21	-	-	-	Bullet	250,000	07/11/19	100.00	100.00	100.07	170	2.09	0.06	0.0	0.0	0.0
3	549104H19	LUANA SAVINGS BANK	1.3%	1.90	07/19/21	-	-	-	Bullet	250,000	07/19/19	100.00	100.00	100.10	243	1.89	0.06	0.1	0.1	0.0
5	512105QR1	LAKESIDE BANK	1.3%	2.00	07/29/21	-	-	-	Bullet	250,000	07/29/19	100.00	100.00	100.16	393	2.01	0.05	0.1	0.1	0.0
4	296679S80	ESSA BANK & TRUST PA	1.3%	1.65	07/29/21	-	-	-	Bullet	250,000	01/29/20	100.00	100.00	100.13	320	1.64	0.06	0.1	0.1	0.0
6	292787CH1	ENERBANK USA	1.3%	2.95	07/30/21	-	-	-	Bullet	250,000	07/31/18	100.00	100.00	100.24	603	2.97	0.06	0.1	0.1	0.0
7	38149MDX8	GOLDMAN SACHS BANK USA	1.3%	2.05	07/30/21	-	-	-	Bullet	250,000	07/31/19	100.00	100.00	100.17	415	2.04	0.06	0.1	0.1	0.0
8	14042T8G1	CAPITAL ONE BANK USA NA	1.3%	2.10	08/02/21	-	-	-	Bullet	250,000	07/31/19	100.00	100.00	100.12	303	2.09	0.73	0.1	0.1	0.0
9	41939HAT9	HAVEN SAVINGS BANK	1.3%	1.95	08/09/21	-	-	-	Bullet	250,000	08/09/19	100.00	100.00	100.21	513	1.96	0.06	0.1	0.1	0.0
10	410493DL1	HANNI BANK	1.3%	2.95	08/17/21	-	-	-	Bullet	250,000	08/17/18	100.00	100.00	100.38	945	2.97	0.05	0.1	0.1	0.0
11	139805AV7	CAPITAL BK NA/RICKVILLE MD	1.3%	1.70	11/05/21	-	-	-	Bullet	250,000	11/06/19	100.00	100.00	100.58	1,443	1.71	0.04	0.4	0.4	0.0
12	856285884	STATE BANK OF INDIA	1.3%	1.85	11/29/21	-	-	-	Bullet	250,000	11/27/19	100.00	100.00	100.76	1,898	1.85	0.02	0.4	0.4	0.0
13	32056GD44	FIRST INTERNET BK OF IN	1.3%	3.05	12/31/21	-	-	-	Bullet	250,000	12/31/18	100.00	100.00	101.51	3,768	3.07	0.04	0.5	0.5	0.0
16	949495A86	WELLS FARGO NATL BK WEST	1.3%	1.80	01/31/22	-	-	-	Bullet	250,000	01/29/20	100.00	100.00	101.02	2,560	1.81	0.04	0.6	0.6	0.0
15	87164DQ70	SYNOVUS BANK GA	1.3%	1.65	01/31/22	-	-	-	Bullet	250,000	01/30/20	100.00	100.00	100.94	2,340	1.65	0.05	0.6	0.6	0.0
14	59013KF03	HERRICK BANK	1.3%	1.65	01/31/22	-	-	-	Bullet	250,000	01/31/20	100.00	100.00	100.94	2,340	1.66	0.05	0.6	0.6	0.0
17	57116ASE9	MARLIN BUSINESS BANK	1.3%	2.65	02/01/22	-	-	-	Bullet	250,000	02/01/19	100.00	100.00	101.52	3,805	2.66	0.05	0.6	0.6	0.0
18	723608859	PIONEER BANK SSB	1.3%	1.60	02/14/22	-	-	-	Bullet	250,000	02/14/20	100.00	100.00	100.97	2,415	1.60	0.05	0.6	0.6	0.0
19	20033AP67	COMENITY CAPITAL BANK	1.3%	2.85	02/15/22	-	-	-	Bullet	250,000	02/15/19	100.00	100.00	101.75	4,368	2.87	0.05	0.6	0.6	0.0
20	227563AM5	CROSS RIVER BANK	1.3%	2.50	04/18/22	-	-	-	Bullet	250,000	04/17/19	100.00	100.00	101.96	4,903	2.50	0.05	0.8	0.8	0.0
21	56065GAF5	MAINSTREET BANK	1.3%	2.45	04/26/22	-	-	-	Bullet	250,000	04/26/19	100.00	100.00	101.96	4,895	2.46	0.07	0.8	0.8	0.0
Domestic CD			25.6%	2.17						5,000,000		100.00	100.00	100.77	38,638	2.17	0.68	0.4	0.4	0.0
1	54975PA05	Wells Fargo Government Money M	74.4%	0.01					Bullet	14,562,109	06/30/21	100.00	100.00	100.00	0	0.01	0.01	0.0	0.0	0.0
NHP			74.4%	0.01						14,562,109		100.00	100.00	100.00	0	0.01	0.01	0.0	0.0	0.0
Total Portfolio			100.0%	0.56						19,562,109		100.00	100.00	100.20	38,638	0.86	0.03	0.1	0.1	0.0



**Cash Management
Use of Local Government Investment Pools
Policy 10.1.0**

POLICY. The District will consider the following when using Local Government Investment Pools (LGIPs):

- 0.1 The District will confirm LGIPs are eligible investments under governing law and the District's Investment Management Policy.
- 0.2 The District will fully understand the investment objectives, legal structure and operating procedures of the investment pool before placing any money in the pool. When evaluating an LGIP, the District obtains the pool's offering statement, investment policy, and audited financial statements.
- 0.3 Particular attention must be paid to the investment objectives of a pool to determine whether a pool seeks to maintain a constant Net Asset Value (NAV) of \$1.00 or could have a fluctuating NAV. This information is essential in order to determine which pools are appropriate for liquidity strategies (constant NAV) and which ones are only appropriate for longer-term strategies (fluctuating NAV).
- 0.4 The pool's list of eligible securities should be reviewed to determine compliance with the District's Investment Management Policy. Portfolio maturity restrictions and diversification policies should be evaluated to determine potential market and credit risks.
- 0.5 Portfolio pricing practices should be evaluated.
- 0.6 Custodial policies should be reviewed.
- 0.7 The qualifications and experience of the portfolio manager, management team and/or investment adviser should be evaluated.
- 0.8 The earnings performance history should be studied and reviewed relative to other investment alternatives. On constant NAV LGIP funds, the current yield of the portfolio can be compared with competitive institutional money market funds, or overnight repurchase agreement rates. Any pool with consistent above-



**Cash Management
Use of Local Government Investment Pools
Policy 10.1.0**

average yields or longer maturities should be further evaluated for risk.

- 0.9** Variable NAV LGIPs should be evaluated in relation to appropriate benchmarks.
- 0.10** Although ratings are not mandatory at this time, the District should seek LGIPs with the highest ratings, where possible or understand the reason a rating is not available.
- 0.11** Procedures for establishing an account, making deposits and withdrawals, and allocating interest earnings should be fully understood.
- 0.12** Any additional services offered by an LGIP should be considered to make use of the fund as effective as possible.
- 0.13** The District will confirm that an LGIP provides regular, detailed reporting to pool participants and follows generally accepted reporting standards.



Cash Management Investment Management Policy 11.1.0

POLICY. The District will properly manage the risk in its portfolios to achieve investment objectives and comply with investment constraints. The use of diversification in the District's portfolio is an important strategy for managing risk. Diversification strategies will consider the following:

- 0.1** Carefully and clearly defining what the objectives mean for safety, liquidity, and return to the District.
- 0.2** Preparing a cash flow projection to determine liquidity needs and the level and distribution of risk that is appropriate for the portfolio.
- 0.3** Considering political climate, stakeholders' view toward risk, and risk tolerances.
- 0.4** Ensuring liquidity to meet ongoing obligations by investing a portion of the portfolio in readily available funds, such as Local Government Investment Pools, money market funds, or overnight repurchase agreements.
- 0.5** Establishing limits on positions in specific securities to protect against default risk.
- 0.6** Limiting investments in securities that have higher credit and/or market risks.
- 0.7** Defining parameters for maturity/duration ranges.
- 0.8** Establishing a targeted risk profile for the portfolio based on investment objectives and constraints, risk tolerances, liquidity requirements and the current risk/reward characteristics of the market.



**Cash Management
Investment Management
Practice 11.2.0**

RELEVANT POLICIES: 10.1.0 Use of Local Government Investment Pools and 11.1.0 Investment Management

PRACTICE. It is the practice of the Incline Village General Improvement District, hereinafter referred to as the District, to invest public funds in a manner which provides the highest investment return consistent with the need for safety and liquidity, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations governing the investment of public funds.

1.0 SCOPE

This practice shall apply to all financial assets under the District's control or in its custody as accounted for in the District's financial accounting records and reported in its periodic financial statements. These funds include financial assets held in the following fiscal entities:

<u>Fund Type</u>	<u>District Fund Name</u>
General.....	General Fund
Enterprise	Utility Fund
.....	Community Services Fund
Capital Improvement	-
Internal Service	Fleet and Maintenance Fund
.....	Workers Compensation Fund
Special Assessment	-
Debt Service	-
Special Revenue	-

All other funds, unless specifically excluded from this practice by Board of Trustees resolution.

2.0 PRUDENCE

The District intends to utilize standards established by the Uniform Prudent Investors Act. The Act has been adopted by the State of Nevada. The standard of care; portfolio strategy; risk and return objectives from the Act consider:



**Cash Management
Investment Management
Practice 11.2.0**

- 2.1 The District shall invest and manage its assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the District. In satisfying this standard, the District shall exercise reasonable care, skill, and caution.
- 2.2 The District's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the District's portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the District's purposes.
- 2.3 Among circumstances that the District shall consider in investing and managing its assets are such of the following as are relevant:
 - 2.3.1 general economic conditions;
 - 2.3.2 the possible effect of inflation or deflation;
 - 2.3.3 the expected tax consequences of investment decisions or strategies;
 - 2.3.4 the role that each investment or course of action plays within the overall investment portfolio
 - 2.3.5 the expected total return from income and the appreciation of capital;
 - 2.3.6 other resources of the District
 - 2.3.7 needs for liquidity, regularity of income, and preservation or appreciation of capital; and
 - 2.3.8 an asset's special relationship or special value, if any, to the purposes of the District
- 2.4 The District shall make a reasonable effort to verify facts relevant to the investment and management of its assets.
- 2.5 The District may invest in any kind of property or type of investment consistent with the standards of this Practice.



Cash Management Investment Management Practice 11.2.0

3.0 FINANCIAL OBJECTIVES AND CONSTRAINTS

The District's primary investment objective is to obtain the maximum investment return in light of the following constraints:

- 3.1 **Safety.** Safety of principal is the foremost constraint of the District's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- 3.2 **Risk.** To minimize the risk associated with any one security, diversification is required to ensure that the potential (or actual) losses on individual securities do not exceed the total return generated from the remainder of the portfolio.
- 3.3 **Liquidity.** The District's portfolio shall remain sufficiently liquid - in terms of cash and near-term maturities of non-cash assets - to enable it to meet all operating requirements, and near term capital investment requirements, which are planned or which might be reasonably anticipated.
- 3.4 **Cash Flow Requirements.** The size and composition (maturity, security type, etc.) of the District's portfolio(s) shall be determined so as to provide funds to meet the District's projected cash consumption requirements, over time.
- 3.5 **Statutes and Regulations.** At all times, the District's investments shall be restricted to those specifically identified within Nevada Revised Statutes (NRS) Chapter 355.170, as amended from time to time, and any other statutes or regulations which may be promulgated by the State of Nevada or the United States Government.

4.0 DELEGATION OF AUTHORITY

Authority to manage the District's investment program is derived from the NRS Chapter 355.175, wherein the District's governing body may appoint an



**Cash Management
Investment Management
Practice 11.2.0**

Investment Officer to handle the day-to-day administration of the program. The Board of Trustees hereby expressly delegates Investment Officer responsibilities to the Director of Finance, Accounting and Information Technology or to the General Manager in the Director's absence.

This practice further requires that the Investment Officer shall establish written procedures for the operation of the program, consistent with this and other provisions of this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for executing investment transactions, if other than the Investment Officer. No person shall engage in an investment transaction except as provided within this practice or the written procedures. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials or third-party agents who assist in the investment program.

5.0 PORTFOLIO MANAGEMENT

The Investment Officer or their designee will routinely and continuously monitor the financial markets, the performance of the District's portfolio securities and competing securities instruments and adjust the District's portfolio, so as to accomplish the aforementioned investment objectives.

This portfolio management function may, subject to the District's Board of Trustees approval, be contracted out to one or more professional investment managers, knowledgeable in the markets, investment instruments and the District's unique constraints and investment needs. The investment manager(s) shall exercise discretion in its (their) decision-making with respect to portfolio transactions to the extent allowed within the constraints of this policy, unless specifically restricted in writing by the District's Board of Trustees.

Additionally, with respect to decisions which adversely impact the short-term performance of District portfolios, as in the instance where individual securities are liquidated at a loss in order to reposition the portfolio to maximize anticipated future returns, managers must first obtain the Investment Officer's concurrence prior to executing transactions which will result in losses which exceed 5% of an individual security's value or which will exceed, when aggregated, 2% of the value of the overall portfolio under management.



Cash Management Investment Management Practice 11.2.0

6.0 ETHICS AND CONFLICTS OF INTEREST

Officers, employees and agents involved in the investment process shall refrain from personal business activity that could conflict, or might appear to conflict, with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. All such individuals or firms shall disclose any material financial interests in financial institutions that conduct business with the District, and they shall further disclose any large personal financial/investment positions, if any, that could be related to the performance of the District's portfolio. Officers, employees and agents shall subordinate their personal investment transactions to those of the District's, particularly with regard to the timing of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. Additionally, a list of competent security broker/dealers shall be maintained. These may be primary dealers or regional dealers who qualify under Securities and Exchange Commission (SEC) Rule 15C3-1, Uniform Net Capital Rule. No public deposit shall be made except in a qualified public depository as established under NRS Chapter 356.

All financial institutions and broker/dealers who wish to become qualified for investment transactions must supply the Investment Officer with the following information, in order to demonstrate their economic viability: audited financial statements, proof of National Association of Securities Dealers certification, proof of state registration and certification of understanding and professed adherence to this Investment Management Practice in executing transactions.

The District will, at its option, establish relationships with one or more institutions or broker/dealers and its Investment Officer shall, at least annually, review the financial condition, registrations/certifications status and general performance of selected institutions or broker/dealers.



Cash Management Investment Management Practice 11.2.0

8.0 AUTHORIZED INVESTMENTS

The instruments which the District is authorized to hold are prescribed in NRS Chapter 355.170, as revised from time to time.

9.0 COLLATERALIZATION

Collateralization will be required on deposit-type securities - e.g., certificates of deposit and repurchase agreements - for deposits which exceed the insured limits of the securities under Federal Deposit Insurance Corporation (FDIC), Federal Saving and Loan Insurance Corporation (FSLIC), or other, successor federal deposit insurance program. Collateral will be limited to obligations of the United States and the State of Nevada and must, at all times, have a fair market value equal to or greater than the fair market value of the collateralized deposits. All other securities shall be collateralized by the actual security held in safekeeping by the appointed custodian.

10.0 SAFEKEEPING AND CUSTODY

All securities purchased by or on behalf of the District, excepting securities subject to repurchase by the seller, and all securities pledged as collateral pursuant to section 9.0, above, must be physically held by the District or its appointed custodian meeting the requirements of NRS 355.172, who shall hold the securities in trust for the District.

Securities subject to repurchase by the seller may, in lieu of the requirement for possession, be evidenced by a fully perfected, first-priority security interest in those securities, held and acknowledged by the third party custodian. Securities so purchased must, at the time of purchase by the District, have a fair market value equal to or greater than the repurchase price of the securities.

11.0 DIVERSIFICATION

The District will diversify its portfolio by security type, maturity and issuing institution. Asset allocation guidelines, as deemed necessary from time to time, shall be prescribed by the District's Board of Trustees. Such asset allocation



Cash Management Investment Management Practice 11.2.0

guidelines (maximum maturities) will be in writing and will become an integral part of this policy.

12.0 MAXIMUM MATURITIES

To the extent possible, the maturities of securities held within District portfolios shall be closely matched to the District's cash flow requirements for 1) day-to-day operations, 2) planned capital projects, 3) unknown future contingencies, and known or stated reserves

In no event shall the District hold securities with maturities which exceed ten years, this being the maximum maturity allowed the District under NRS Chapter 355.170. Investments will be allocated to maturities that match the stated needs for which the District has established the Fund or account.

13.0 INTERNAL CONTROL

The Investment Officer shall establish a system of written internal controls which shall be reviewed for adequacy, annually, by the District's external auditors. The controls shall be designed to prevent loss of public funds arising from fraud or abuse, employee error, misrepresentation by third parties, or imprudent actions by officers, employees or agents of the District.

14.0 PERFORMANCE BENCHMARK STANDARDS

Theoretically, the District's investment portfolio would have a simple average maturity of less than five years. As a practical matter, the average maturity of the portfolio will vary as economic conditions change and will be dependent upon market factors and the actual investment strategy selected. Accordingly, for purposes of measuring and comparing returns among investments, the performance of District portfolio(s) shall be measured against the 1 year or less, 1-3 year, 1-5 year, and 1-10 year U.S. Government Treasury Indices.

15.0 REPORTING

The Investment Officer shall prepare a quarterly report of investment activity that will be made available to the Board of Trustees within thirty days of the



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close of the calendar quarter. The report will include sufficient content to indicate how the District's investments are being managed to meet the objectives of safety, risk, liquidity, cash flow and regulations. The report shall contain a measure of the portfolio's return for the quarter, and when annualized shall compare its actual performance with the aforementioned benchmarks.

At least once annually, and not later than sixty days after the close of the fiscal year, the Investment Officer shall present a comprehensive report summarizing the investment program's performance during the preceding twelve month period. This report shall contain, at a minimum, the same information required in the quarterly reports but, also, shall indicate areas of concern with respect to policy and strategy matters and shall recommend appropriate corrective action.

Additionally, at least quarterly, the Investment Officer shall prepare a projection of cash flows for the succeeding five year investment period. Estimates for the first two years of the investment period shall be on a quarterly basis, while estimates for the remaining periods may be on an annual basis. This cash flow projection shall serve as the basis for adjustments to asset allocations among and between the investment maturities.

16.0 INVESTMENT PRACTICE ADOPTION

This investment practice shall be adopted by motion of the District's Board of Trustees. It shall be reviewed at least annually and any modifications made hereto must be approved by the District's Board of Trustees.