NEVADA ASSOCIATION OF COUNTIES (NACO)
Board of Directors' Meeting
August 30, 2019, 9:30 a.m.
NACO Office
304 S. Minnesota Street
Carson City, NV 89703

AGENDA
Some NACO Board members may attend via video link or phone from other locations. Items on the agenda may be taken out of order. The NACO Board may combine two or more agenda items for consideration. The NACO Board may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.

Call to Order, Roll Call and Pledge of Allegiance

1. Public Comment. Please Limit Comments to 3 Minutes.

2. Approval of Agenda. **For Possible Action**

3. NACO President's Report.

4. NACO Executive Director's Report.

5. Approval of Minutes of the July 26th, 2019 NACO Board of Directors Meeting. **For Possible Action**

6. Discussion and Possible Approval of the Reappointment of Joni Eastley to the Nevada Rural Housing Authority Board of Commissioners, for a Term Beginning on January 1, 2020 (NRS 315.977). **For Possible Action**

7. Update on Preparations and Plans for the 2019 NACO Annual Conference, which will be held on September 25-26 and Hosted by Washoe County.

8. Approval of the 2019 NACO Honor Roll, NACO Participatory Democracy, and Legislator of the Year Awards for Presentation During the 2019 NACO Annual Conference. **For Possible Action**

9. Approval of NACO's June 2019 Financial Statements and Investment Reports. **For Possible Action**

10. Presentation of NACO's 2018 Financial Audit, Michael Bertrand, Bertrand and Associates, LLC. **For Possible Action**

11. Discussion and Approval of a Revised NACO Capitalization Policy, Alan Kalt, NACO Fiscal officer. **For Possible Action**

12. Discussion and Approval of a NACO Policy Regarding Investment Guidelines, Alan Kalt, NACO Fiscal Officer. **For Possible Action**

13. Discussion of NACO's Current Investment Manager Including Performance of Investments and Services Provided. **For Possible Action**

14. Discussion and Updates Related to the 2020 U.S. Census.

15. **Update and Possible Action** Regarding Natural Resources and Public Lands and Issues Affecting Counties Including:

    a. NACO Public Lands and Natural Resources Committee Update.
    b. Presentation and Update from the U.S. Forest Service on Activities Impacting Nevada's Counties.
    c. Fallon Range Training Complex Modernization (FRTC)

16. NACO Committee of the Emeritus Update. **For Possible Action**

17. National Association of Counties and Western Interstate Region Board Member Updates.

18. NACO Board Member Updates.

19. Public Comment. Please Limit Comments to 3 Minutes.

Adjournment.

Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to notify NACO in writing at 304 S. Minnesota Street, Carson City, NV 89703, or by calling (775) 883-7863 at least three working days prior to the meeting.

Members of the public can request copies of the supporting material for the meeting by contacting Amanda Evans at (775) 883-7863. Supporting material will be available at the NACO office and on the NACO website at: www.nvnaco.org

This agenda was posted at the following locations:
NACO Office 304 S. Minnesota Street, Carson City, NV 89703
Washoe County Admin. Building 1001 E. Ninth Street, Reno, NV 89520
Elko County Manager's Office 540 Court Street #101, Elko NV 89801
POOL/PACT 201 S. Roop Street, Carson City, NV 89701

Agenda Item 5

NEVADA ASSOCIATION OF COUNTIES (NACO)
Board of Directors' Meeting
July 26, 2019, 9:30 a.m.
NACO Office
304 S. Minnesota Street
Carson City, NV 89703

UNADOPTED MINUTES

Attendance: President Waits, President Elect French, Lincoln County Commissioner Higbee, Mineral County Commissioner Price, Lyon County Commissioner Hunewill, Elko County Commissioner Steninger, Carson City Mayor Crowell, Lander County Commissioner Allan, Nye County Commissioner Wichman and NACO Staff (Dagny Stapleton, Vinson Guthreau and Amanda Evans)

Remote Attendance: Vice President Kirkpatrick, Lincoln County Commissioner Lister, Washoe County Commissioner Hartung, Esmeralda County Commissioner Keyes, and Pershing County Commissioner Shank.

Other Attendance: Lyon County Commissioner Keller, Scott Keller, Dr. Ivory Lyles, University of Nevada Cooperative Extension; Natalie Okeson, office of Senator Rosen; Lee Bonner, NDOT; Kim Burgess, US Census Bureau; and Marla McDade, Strategies 360

The meeting was called to order by President Waits at 9:30 a.m.

1. **Public Comment**. Mayor Crowell remarked on the Pledge of Allegiance and its importance in uniting the nation.

2. **Approval of Agenda**. The agenda was approved on a motion by Commissioner Wichman with second by Commissioner Price.

3. **NACO President's Report**. President Waits thanked those who attended the NACo Annual Conference in Clark County and remarked on the amazing job that County staff did in their planning efforts. She also noted the number of vendors in the exposition hall, specifically on her visit with a firm representing rail transportation - both passenger and freight. She acknowledged Commissioner Shank's birthday and informed the Board that the cocktail hour during the annual banquet will include the attendance of animal shelters who will have interactive activities with pets up for adoption. She also announced that dress for the Banquet will be casual.

4. **NACO Executive Director's Report**. Dagny welcomed Clark County Commissioner Jim Gibson to the Board - because Commissioners Weekly and Kirkpatrick currently sit on the Executive Committee Clark County is allowed an additional representative, however, Commissioner Gibson will act as a non-voting member unless either Commissioner Weekly or Vice President Kirkpatrick are not in attendance. Dagny reminded the Board that the election for the Association's Vice President will be held during the annual General Membership meeting at the upcoming NACO Conference and requested that any Commissioner interested in the position submit a letter to her by August 5th for consideration by the Nominating Committee. She discussed the invitation extended by the White House for Commissioners to meet with members of the Cabinet on September 11th and 12th and requested that anyone planning on attending to let her know. Dagny also reminded members of the National Association's PILT Fly-in, occurring

the same week. She concluded her remarks by announcing that Colby Prout had accepted the position of Natural Resources Manager and would be starting on August 1st.

5. **Approval of Minutes of the June 28th, 2019 NACO Board of Directors Meeting**. The minutes were approved on a motion by Commissioner Price with second by Mayor Crowell.

6. **Recommendation of Three Nominees for Consideration by the Governor for Appointment to the Social Services Agency Seat on the Board for the Fund for Hospital Care for Indigent Persons (NRS 428.195)**. Dagny reminded the Board that they had previously approved the submission of Mike Pawlak, Director of Social Services for Clark County to the Board, but that he was retiring from the County and would no longer be able to serve. She informed the Board that Tim Burch, Administrator of Clark County Human Services had indicated willingness to serve and that Mary Jane Ostrander and Karen Beckerbauer, Directors of Carson City and Douglas County Human Services were willing to resubmit their applications as additional nominees to satisfy the statutory requirements. The Board voted to submit all three names to the Governor on a motion by Commissioner Wichman with second by Mayor Crowell.

7. **Approval of One of NACO's Four Nominees to the Governor for the Board on Indigent Defense Services**. Dagny reminded the Board of their discussion of nominees conducted in June and informed them that three of them were not able to be appointed because they already served on other Governor-appointed boards. She informed the Board that Humboldt County Manager, Dave Mendiola was willing to submit his name in lieu of others. The Board approved the nomination of Mr. Mendiola to the Board on Indigent Defense Services on a motion by Mayor Crowell with second by Commissioner Wichman.

8. **Approval of a Resolution in Honor of Clark County Hosting the 2019 National Association of Counties Annual Conference**. The resolution was read into the record by President Waits and was approved on a motion by Commissioner Wichman with second by Mayor Crowell.

9. **Update Regarding the National Association of Counties High Performance Leadership Academy**. Dagny gave the Board an overview of the program. Any county officials or staff can attend the web-based program and noted that the cost is greatly reduced for the first employee to attend. She referenced the video link included in the agenda packet and President Waits informed the Board that she had conversed with people who had attended the Academy and they were very impressed with the program.

10. **Discussion and Possible Approval for NACO to Coordinate an Actuarial Study of the Costs to Nevada's Counties for the Nonfederal Share of the Expenditures for Long-Term Care Pursuant to the State Plan for Medicaid**. Dagny reminded the Board that the Medicaid match assessments are the largest that the counties receive from the State and are a part of the counties' responsibilities for providing indigent services. She noted that although the State has made efforts to include not only NACO but the Nevada Association of County Human Service Administrators in the conversations regarding the assessments that there have still been large increases in these assessments without prior knowledge of the counties and often after the counties' budgets have been closed. She informed the Board that during the Legislative Session there were two additional increases that were not discussed during the interim that will affect the counties over the biennium, 20% in 2020 and 34% in 2021. Reasons for the increases given by the Department of Health and Human Services include increased caseloads and costs of care. Dagny informed the Board that the completion of the proposed study would allow both the State and the counties to have accurate data going forward on what the numbers for the assessments are, what those are based on, and what projected costs might be. This would enable the counties to prepare for any necessary increases, provide accurate to the Legislature during budget

discussions, and facilitate potential conversations at the IAF (Indigent Accident Fund) Board regarding how the Fund could be leveraged to assist in covering these costs. She noted that Clark County is willing to provide financial assistance for the study as well as assist with the RFP. Washoe County also has funding available to assist as does the current budget of the Association. The Board approved NACO coordination of the study on a motion by Commissioner Wichman with second by Commissioner Allan.

11. **Discussion and Updates Related to the 2020 U.S. Census**. Dagny informed the Board that the Governor's Complete County Committee had convened and reminded them that she is their representative on the Committee. She noted that the initial conversation of the Committee centered around what can be done to ensure increased participation and that she would be giving regular updates on the activities of the Committee. Dagny reminded the Board that an accurate count is critical, as the data gathered during the Census determines Congressional representation, affects the amount of federal tax dollars returned to the state (roughly $2k per person), and C-Tax distribution among other things. Kim Burgess, of the U.S. Census Bureau addressed the Board and informed them that she is the current Specialist for all counties except Clark and Nye. She discussed the importance of each county creating a Complete Count Committee. She informed the Board that the Census Bureau will begin physical address verifications in the short term and reiterated the importance of obtaining an accurate count of traditionally hard to count populations in both rural and urban census tracts. Kim Burgess spoke and suggested incorporating members of community and civic organizations onto county complete county committees. Ms. Burgess and Dagny both suggested that each county commission take action to create a Complete County Committee within the next month or two. Dagny informed the Board that there is a $5M set-aside in the State budget that will be discussed at the next meeting of the Complete County Committee and may result in grant funding available to the counties to assist in costs associated with Census efforts.

12. **Discussion and Possible Approval of Support from NACO to the USDA for Implementation of the Rural Broadband Integration Working Group and the Council on Rural Community Innovation and Economic Development as Mandated in the Agriculture Improvement Act of 2018**. Vinson referenced the two House Resolutions included in the agenda packet, and gave a brief overview of both. The first Resolution requires 26 Federal Agencies to create a working group to consult on barriers to deployment of broadband in rural communities and requires that a report be submitted to the President within 150 days after creation of the working group. The second Resolution requires the same Agencies to improve program coordination and requires them to identify challenges to facilitating economic development within rural communities. Vinson informed the Board that both Resolutions had been passed in the Farm Bill and that the Office of Senator Cortez Masto had requested that the Board support communications with local Agency offices to spur implementation of the requirements. Staff was directed to engage as necessary on a motion by Commissioner Wichman with second by Commissioner Allan.

13. **Update on the University of Nevada Cooperative Extension (UNCE) program, Dr. Ivory Lyles**. Dr. Lyles began his remarks by referencing the previous agenda item and informing the Board that the University is currently working with the Governor's Office of Economic Development (GOED) to determine the University's responsibilities surrounding the broadband issue, how the University's resources across the state can be leveraged to improve connectivity and to identify UNCE's roll in assisting with rural economic development. Dr. Lyles noted that the requested budget enhancement for UNCE was not included in the final biennial budget but that the University is continuing work on strengthening the program throughout the State. He gave an overview of the positions that had been filled and would be filled within the counties and informed the Board that UNCE would like county representation on all necessary search committees. He discussed the economic impact assessments being conducted by UNCE in each county and informed the Board that the next meeting of the Advisory Council, which Dagny is a

member of, would occur in September. President Elect French acknowledged the improved relationships between the program and counties since Dr. Lyles had come on board and inquired as to the restoration of program funding. Dr. Lyles noted that he couldn't give a percentage of change but informed the Board that in 2009 the program's budget was $12M and that the current year budget is only $4M. He informed the Board that outreach efforts are being conducted with members of the Legislature by Extension staff in order to provide better education on the program and its benefits to local communities in both the urban and rural areas of the state. Commissioner Wichman thanked Dr. Lyles for inclusion on the search committee for filled positions within Nye County and many of the members of the Board echoed President Elect French's comments about the improved relationship between the counties and UNCE. The item was concluded with remarks from Mayor Crowell about the NV State Fair that was beginning that day and its focus on 4-H, FFA and other agricultural endeavors. No action was taken by the Board.

14. **Update and Possible Action Regarding Natural Resources and Public Lands and Issues Affecting Counties Including:**

    a. **NACO Public Lands and Natural Resources Committee Update.** Jeremy Drew of Resource Concepts informed the Board that the BLM's Greater Sage grouse Resource Management Plan Amendment (RMPA) is complete and that the Agency is starting implementation and working with the State on the existing Conservation Credit System. He also informed the Board that the Forest Service is expected to release their Final Environmental Impact Statement (FEIS) with their proposed Record of Decision (ROD) in August and that there would be a 60-day comment period once the documents are released. President Elect French inquired as to any developments with their proposed sound restrictions and Jeremy reminded the Board that there was extensive participation in the development of the draft EIS and detailed comments submitted but that no information had been released as to what the final documents would include. Additional updates from the Committee included that responses to comments submitted to the Fish and Wildlife Service on the listing decision for the Bi-State Sage grouse and the proposal to extend the protected territory for the California Condor into Nevada have yet to be received. Commissioner Allan expressed concern with the Condor proposal and noted that the introduction of wolf species in non-native habitat areas are causing issues in other states. The Department of Defense's proposal to expand the Fallon Range Training Complex was also discussed and the Board was informed that the affected counties had received a summary response to their comments as Cooperating Agencies but they are still bound by an NDA so additional details could not be discussed. The Board was informed that the Department is expected to send their ROD to Congress in January and engagement with the Delegation has begun. Commissioner Lister informed the Board that he had heard that there was a possibility that both the Fallon and Nellis land withdrawals could be included in a lands bill that could create issues with effective input going forward. The item ended with discussion on RS2477 roads and the need for engagement on travel management plans. Staff informed the Board that a session during the upcoming Annual Conference would include a panel on county roads.
    b. **Discussion of Proposed Changes to both BLM and USFS NEPA/Planning Processes, Including Approval of NACO Draft Comments to the BLM Proposal**. Mr. Drew discussed both Agencies' proposed rule updates as the apply to the National Environmental Policy Act (NEPA) and Council on Environmental Quality (CEQ) processes. He informed the Board that the BLM has yet to release their draft document and referenced the proposed comment letter for the USFS proposal included in the agenda packet. He gave a brief overview of the letter and encouraged further county participation including the requesting of Cooperating Agency status where appropriate.

The comment letter was approved on a motion by Commissioner Wichman with second by Commissioner Price.

15. **NACO Committee of the Emeritus Update**. Vinson informed the Board that the Committee had reconvened after taking a hiatus during the Legislative Session and had discussed the Newly Elected Official Training program. He also informed the Board that suggestions for interim workshop topics would be brought to the Board for approval.

16. **National Association of Counties and Western Interstate Region Board Member Updates**. Meetings of both groups were held during the National Association of Counties Annual Conference earlier in the month. President Elect French informed the Board discussion in the WIR meeting included a proposed guide book for the Department of the Interior and USDA on engagement with local governments and Cooperating Agencies, county natural resource plans, HR3043 that would require the full funding PILT under permanent authority as a budget line item, rules for exclusions of road restoration and repair, proposed upcoming reforms to the Endangered Species Act and the proposed $2 Trillion in infrastructure repairs and maintenance. Commissioner Higbee informed the Board that Policy Resolutions approved by the Board of Directors included support for mental health funding, PILT, and rural broadband.

17. **NACO Board Member Updates**. Updates were given by members of the Board on activities within their counties.

18. **Public Comment**. Commissioner Higbee informed the Board that he had spoken with Tim Williams at the NACo Conference and noted that the BLM is moving forward with plans to relocate the Agency's offices to Grand Junction Colorado.

The meeting was adjourned on a motion by Commissioner Higbee with second by Commissioner Allan.

Agenda Item 6

NRS 315.977 Creation of Authority; appointment of commissioners; quorum; majority vote required to carry question.

1. The Nevada Rural Housing Authority, consisting of five commissioners, is hereby created.

2. The commissioners must be appointed as follows:

(a) Two commissioners must be appointed by the Nevada League of Cities.

(b) Two commissioners must be appointed by the Nevada Association of Counties.

(c) One commissioner must be appointed jointly by the Nevada League of Cities and the Nevada Association of Counties. This commissioner must be a current recipient of assistance from the Authority and must be selected from a list of at least five eligible nominees submitted for this purpose by an organization which represents tenants of housing projects operated by the Authority. If no such organization exists, the commissioner must be selected from a list of nominees submitted for this purpose from persons who currently receive assistance from the Authority. If during his or her term the commissioner ceases to be a recipient of assistance, the commissioner may continue to serve as a commissioner for the remainder of the unexpired term for which he or she was appointed if he or she resides within the area of operation of the Authority.

3. After the initial terms, the term of office of a commissioner is 4 years or until his or her successor takes office.

4. A majority of the commissioners constitutes a quorum, and a vote of the majority is necessary to carry any question.

5. If either of the appointing entities listed in subsection 2 ceases to exist, the pertinent appointments required by subsection 2 must be made by the successor in interest of that entity or, if there is no successor in interest, by the other appointing entity.

(Added to NRS by 1973, 616; A 1977, 1190; 1987, 523; 1993, 1553; 1995, 812, 2695, 2696; 1997, 450; 2011, 1378)

Agenda Item 7

Nevada Association of Counties 2019 Annual Conference

Healthy Counties ~ Healthy Communities

Hosted by:
Washoe County

September 25-26
The Nugget
Sparks, Nevada

Wednesday, September 25th

Time	Event
7:15 a.m. – 5:00 p.m.	***POWER I & II Workshops*** For questions on these courses please contact the UNR Extended Studies team.
8:30 a.m. – 5:00 p.m.	***Registration***
8:30 a.m. – 3:00 p.m.	***Exhibitor Set Up***
1:00 p.m. – 3:00 p.m.	***Onsite Overview of Washoe County's Planned Homeless Project on the NNHAMS Campus*** – Attendance is limited to 25. Transportation will be provided by the Sparks Nugget and will depart from the Valet area; private transportation is not allowed due to venue space and parking concerns.
2:45 p.m. – 4:00 p.m.	***Workshop for County Commissioners – Tips from your Peers on Leadership and Running an Effective Meeting.*** A panel of seasoned county commission chairs will share their expertise on setting the tone for effective meetings and managing difficult conversations.
4:00 p.m. – 5:00 p.m.	***Nevada Economic Outlook*** UNLV Professor and Regional Economist Jaewon Lim will provide Nevada's counties with an economic forecast by region.
6:00 p.m. – 10:00 p.m.	***President's Reception & Annual Banquet***

NOTE This schedule is for review purposes only. While the session topics will remain the same, the session times may change. Please refer to the final schedule which will be distributed at the Annual Conference.**

Thursday, September 26th

8:00 a.m. – 1:00 p.m. ***Registration***

8:00 a.m. – 9:15 a.m. ***NACO Board and Membership Meeting***

8:00 a.m. – 9:30 a.m. ***Opioids and Mental Health in Nevada's Communities***
Receive an update on opioid litigation and Nevada's Regional Behavioral Health Policy Boards. This panel will discuss the regional behavioral health infrastructure currently in place in Nevada including needs and innovative programs and solutions, and will also discuss how these tie into addiction treatment and strains on county services tied to the opioid epidemic.

9:45 a.m. – 11:30 a.m. ***Opening General Session***
Join us for our welcoming ceremonies, including remarks from the Chair of the Washoe County Commission and the President of NACO, as well as greetings from our U.S. Senators, and Governor Sisolak (invited).
*****D.C. update from the National Association of Counties (NACo)
*****Panel discussion on Nevada politics including trends at the Nevada Legislature.

11:45 p.m. – 1:30 p.m. ***Lunch***
POWER Awards
Cybersecurity Briefing for Counties - Many local governments across the country have dealt with ransomware attacks – hear from cybersecurity expert Tony Rucci on how counties can ensure that their systems are secure, and how to prevent and respond to a ransomware attack.

1:45 p.m. – 3:00 p.m. ***County Fiscal Health & Stability***
Managing your county's budget and finances are one of the most important things that county commissioners and staff do. This panel will include lessons on restricted funds and how to use them, rainy day funds, and general fiscal stability with a cautionary tale or two from current and past county members of the Nevada Committee on Local Government Finance.

Criminal Justice Reform & Court Administration
Nevada recently instituted a handful of criminal justice reforms – this panel will discuss how those will affect counties as well as best practices for working with your courts and judges.

3:00 p.m. – 3:30 p.m. **Break/Sponsor Engagement**

3:45 p.m. – 5:00 p.m. ***Prepare for the Unimaginable***
Across the U.S. there have been increasing instances of active shooter events in public buildings. This panel will address how counties can be prepared including policies and preventative measures that you could have in place; county risk and liability; target hardening and suggestions to increase security; and emergency response.

County Roads on Federally Managed Land
This panel will discuss county roads as they relate to public lands management, travel management plans, and working with the federal agencies.

Conference Ends

NOTE This schedule is for review purposes only. While the session topics will remain the same, the session times may change. Please refer to the final schedule which will be distributed at the Annual Conference.**

Agenda Item 9

June 28 to July 31, 2019

WOODS CAPITAL PARTNERS | RAYMOND JAMES®

Nevada Assoc Of Counties Account Summary

Closing Value $454,578.13

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NEVADA ASSOC OF COUNTIES (NACO)
EAM HQTAX
304 S MINNESOTA ST
CARSON CITY NV 89703-4270046

JOE WOODS II
Raymond James Financial Services, Inc.
RAYMOND JAMES FINANCIAL SVCS. | 1011 C AVENUE | CORONADO, CA 92118 | (619) 435-1693
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Raymond James Client Services | 800-647-SERV (7378)
Monday - Friday 8 a.m. to 9 p.m. ET
Online Account Access | raymondjames.com/clientaccess

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Investment Objectives

Primary: Income with a medium risk tolerance and a time horizon exceeding 10 years.

Activity

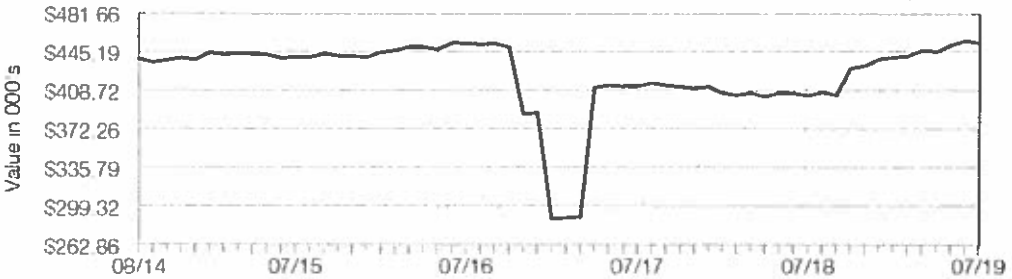
		This Statement		Year to Date
Beginning Balance	$	**456,411.36**	$	**439,331.40**
Deposits	$	0.00	$	0.00
Income	$	565.15	$	6,819.05
Withdrawals	$	0.00	$	0.00
Expenses	$	(1,438.00)	$	(4,166.60)
Change in Value	$	(960.35)	$	12,614.28
Ending Balance	$	**454,578.13**	$	**454,578.13**

Time-Weighted Performance

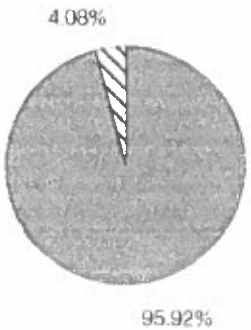
See Understanding Your Statement for important information about these calculations.

Performance Inception 08/26/96	YTD	2018	2017
	3.62%	(0.22)%	0.58%

Value Over Time



Asset Allocation Analysis



		Value	Percentage
US Equities	$	-	-
Non-US Equities	$	-	-
Fixed Income	$	435,988.80	95.92%
Real Estate & Tangibles	$	-	-
Alternative Investments	$	-	-
Non-classified	$	-	-
Cash & Cash Alternatives	$	18,589.33	4.08%

Morningstar asset allocation information is as of 07/30/2019 (mutual funds & annuities) and 07/18/2019 (529s).

June 28 to July 31, 2019

WOODS CAPITAL PARTNERS | RAYMOND JAMES®

Nevada Assoc Of Counties Account Summary

Closing Value $192,752.84

NEVADA ASSOC OF COUNTIES (NACO)
EAM EQINC
304 S MINNESOTA ST
CARSON CITY NV 89703-4270046

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By

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Raymond James Financial Services, Inc.
RAYMOND JAMES FINANCIAL SVCS. | 1011 C AVENUE | CORONADO, CA 92118 | (619) 435-1693
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Raymond James Client Services | 800-647-SERV (7378)
Monday - Friday 8 a.m. to 9 p.m. ET
Online Account Access | raymondjames.com/clientaccess

Investment Objectives

Primary: Growth with a medium risk tolerance and a time horizon exceeding 10 years.

Activity

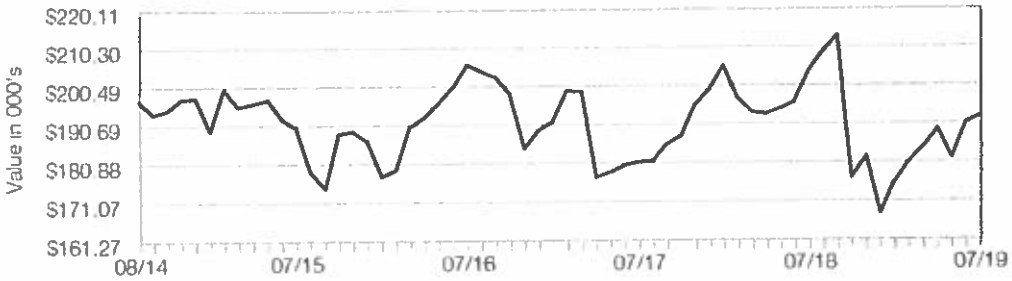
		This Statement		Year to Date
Beginning Balance	$	191,167.61	$	168,056.58
Deposits	$	0.00	$	0.00
Income	$	488.55	$	3,300.89
Withdrawals	$	0.00	$	0.00
Expenses	$	(981.19)	$	(2,786.61)
Change in Value	$	2,077.87	$	24,181.98
Ending Balance	$	192,752.84	$	192,752.84

Time-Weighted Performance

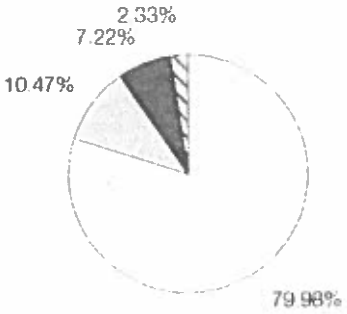
See Understanding Your Statement for important information about these calculations.

Performance Inception 08/26/96	YTD	2018	2017
	14.70%	(3.52)%	18.71%

Value Over Time



Asset Allocation Analysis



		Value	Percentage
US Equities	$	154,137.34	79.98%
Non-US Equities	$	20,200.17	10.47%
Fixed Income	$	-	-
Real Estate & Tangibles	$	13,920.21	7.22%
Alternative Investments	$	-	-
Non-classified	$	-	-
Cash & Cash Alternatives	$	4,495.12	2.33%

Morningstar asset allocation information is as of 07/30/2019 (mutual funds & annuities) and 07/18/2019 (529s).

Agenda Item 10

BERTRAND & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS
Members American Institute of Certified Public Accountants

777 E. William St. Suite 206
Carson City, NV 89701
Tel 775.882.8892
Fax 775.562.2667
Email: Michael@bertrandcpa.com

July 31, 2019

To the Board of Directors
Nevada Association of Commissioners

Dear Board members,

We have audited the financial statements of the business-type activities of **Nevada Association of Counties (NACO)** for the year ended **December 31, 2018**. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards require that we provide you with the following information related to our audit which is divided into the following two sections:

Section I – Required Communications with those Charged with Governance

Section II – Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board in our Audit Committee Letter.

Section II presents recommendations related to internal controls, procedures, and other matters during our current audit year. These comments are offered in the interest of helping the Board in its efforts toward continuous improvement, not just in the areas of internal controls and accounting procedures, but also in operations, and administrative efficiency and effectiveness.

Section I – Communications Required under AU 260

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 29, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole, and to report on whether the

supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit
We performed the audit according to the planned scope and timing previously communicated to you in our letter regarding planning matters dated October 29, 2018.

Significant Audit Findings
Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NACO are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year audited. However, we recommend that the existing policy and procedures manual be updated and made readily available to staff and management.

We noted no transactions entered by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:
The most sensitive estimates affecting NACO's financial statements were Accounts Receivables, Compensated Absences and the implementation for GASB 68, accounting and financial reporting for pensions, and the tracking of grants and other revenues and expenditures where NACO acts as a pass-through organization.

Management's estimate of Accounts Receivable is based on their judgment on what they believe is collectible derived from known facts. The estimate for Compensated Absences is based on accrued time valued at each employee's current pay rate as of year-end. The value of that balance will change dependent upon the pay rate at the time it is used.

We evaluated the key factors and assumptions used to develop the Accounts Receivable balance and Compensated Absences balance in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was regarding the implementation of GASB 68 which records the pension liability on the books. These amounts are prepared by PERS in an actuarial study and are available to the public on their web site.

Management has agreed and accepted the proposed adjustments and recommendations.
The financial statement disclosures are neutral, consistent, and clear.

The Government Accounting Standard Board issued Statement 75 which is to be implemented in 2018. This standard provides guidance on how other postretirement benefit liabilities are to be reported along with footnoted disclosures. Management has not implemented this new statement as the additional costs for the actuary and audit had not been budgeted. Therefore, the financial statements do not reflect the expense and other postretirement benefit liabilities in accordance with the new standard.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatement
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments proposed were as follows:

1. The adjustment required for recording the GASB 68 pension liability. Management has recorded this entry that we provided.
2. Contract revenues collected on the RCI contact but not expended were recorded as revenues. We proposed and management accepted the adjustment to remove this from income and show it as a liability as it will eventually be used to pay on the contract.
3. Indigent Accident Fund revenues were improperly recorded in a prior year when the contract was increased by $5,000. Though an immaterial amount, management decided to record the entry to prevent the future incorrect reporting of deferred revenue.
4. The Governmental Accounting Standards Board issued GASB Statement #75 which was implemented in the current year. Implementation would have incurred additional audit and actuarial costs which were not budgeted, therefore management decided to postpone implementation until the following year. This departure from Generally Accepted Accounting Principles is disclosed in the Auditor's Report letter under "basis for qualified opinion".

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

Management Representations
We have requested certain representations from management that are included in the Management Representation Letter dated July 31, 2019.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, like obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our

professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Section II – Other Recommendations and Related Information

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We provided an audit committee recommendations letter to the fiscal officer. In that letter we identified exceptions and noted our recommendations.

This information is intended solely for the use of Board of Directors charged with governance and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Bertrand & Associates, LLC

Bertrand & Associates LLC

BERTRAND & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS
Members American Institute of Certified Public Accountants

777 E. William St. Suite 206
Carson City, NV 89701
Tel 775.882.8892
Fax 775.562.2667

May 31, 2019

Nevada Association of County Commissioners
304 S. Minnesota St.
Carson City, NV 89703

Dagny Stapleton, Executive Director
Alan Kalt, Fiscal Officer

RE: 2018 Audit Committee Letter

Dear Ms. Stapleton and Mr. Kalt,

The following comments and recommendations are based on the results of our audit of the Association's 2018 financial statements.

It is our responsibility to report on the fair presentation of the financial statements in all material respects. Management is responsible for developing and maintaining an effective system of internal accounting controls, keeping the accounting books in good order and for all amounts including the estimates that are presented in the financial statements. Our responsibility as the auditor is to examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and tested. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

The financial statements contain significant estimates that are the responsibility of management. The most significant is the net pension liability. Management obtains the estimate for the net pension liability from the annual report provided by PERS.

1 - <u>Communication of control deficiencies or material weakness. - Statement on Auditing Standards (SAS) 112.</u>
Our consideration of internal controls was for the limited purpose of conducting our organization's audit and would not necessarily identify all deficiencies in internal controls that might be significant or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned duties to prevent or detect

misstatements on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal controls.

A *material weakness* is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected by the entity's internal controls.

It is important to note that control deficiencies are not necessarily problems you will choose to address. However, they do represent potential risks. Our job as your auditor is to ensure that you understand where deficiencies or weaknesses exist so that you can make informed business decisions on how best to respond to these risks. We did not identify deficiencies in internal controls that we would consider to be material, however we did identify significant deficiencies which are discussed below.

2 - <u>The following prior year comments were not implemented and may be helpful in strengthening internal controls.</u>

2A - <u>Review of investment policy</u>
We recommended that the Executive Director and Board meet with the Investment Advisor to discuss and review the investment policy. This will provide an opportunity for the Executive Director to better understand and ask questions regarding the existing policy and to determine with the Board if there should be any changes in that policy.

<u>2C - Update accounting policy and procedures manual</u>
We recommend that the accounting policy and procedures manual be updated.

<u>3 - Disbursements tests performed</u>
We tested disbursement controls, selecting a sample to provide a 95% confidence level.

In addition, we selected a sample of disbursements and checked for appropriate signatures and verified that amounts agreed to invoices, included evidence of approval and that those disbursements were recorded to the proper accounts.

The following lists our sample statistics:

1. It was noted that two checks selected were signed by the Executive Director but there was not a second signer on those checks.
2. Three checks were printed on check stock numbers that did not correspond to the number generated by the accounting software.

	Total Disbursements	Total Disbursements Tested ($)	Percent Tested	Total Disbursements Count	Total Disbursements Tested (Count)	Percent Tested
Admin Expenses	$ 358,179	$ 180,611	50%	378	71	19%

4 – Proposed audit adjustments
The following adjustments were proposed to management and accepted and recorded as of December 31, 2018.

A – An adjustment to comply with GASB 68 which requires the reporting of the net pension liability and the associated deferred outflows and inflows. This amount is based on the PERS actuarial report dated June 30, 2019.

B – Receipts and related expenditures for a contract with RCI on behalf of members was shown as revenue and expenses on the books resulting in a net profit to NACO. Due to the nature of the agreement, NACO will not receive a profit so we proposed that the revenues in excess of expenditures be reclassified as deferred revenues.

5 – Capitalization policy recommendation
We recommend that the capitalization policy be increased to $5,000 from the present $1,000.

This would eliminate the need to keep records of depreciation on small purchases that have no significant impact on the financial statements. In addition, in recent years, the Internal Revenue Service has allowed organizations that have audits performed to use $5,000 as a safe harbor capitalization level.

6 – Updating of authorized signatures on operating bank account
It was noted through the confirmation process that two former employees, Wes Henderson and Jeffrey Fontaine were listed as authorized signers on the bank account at Bank of America at December 31, 2018. We recommend that every time the signature authority is updated for a new employee that at the same time it is reviewed for employees whose authority on the account should be terminated.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Bertrand & Associates, LLC

Bertrand & Associates, LLC

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
FINANCIAL STATEMENTS
December 31, 2018 and 2017

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
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BERTRAND & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS
Members American Institute of Certified Public Accountants

777 E. William St. Suite 206
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INDEPENDENT AUDITOR'S REPORT

To the Executive Director and the Board of Directors
Nevada Association of County Commissioners
Carson City, Nevada

Report on the Financial Statements
We have audited the accompanying statement of net position of the Nevada Association of County Commissioners (NACO), a non-profit corporation, as of December 31, 2018 and 2017 and the related statements of revenues and expenses and changes in net position and statement of changes in cash flows for the years then ended.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of qualified opinion
Beginning fiscal year ending December 31, 2018 Government Accounting Standards required certain adjustments to the financial statements and additional disclosures to account and report on other post-employment benefits. Due to the additional costs to comply and budget constraints, management decided to not include those adjustments and disclosures with these financial statements.

Opinions
In our opinion, except for the possible effects of the matter described in Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nevada Association of County Commissioners as of December 31, 2018 and 2017 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, GASB required supplemental information and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bertrand & Associates, LLC

Carson City, Nevada
July 31, 2018

Management Discussion and Analysis

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction and should be read in conjunction with the basic audited financial statements. This analysis represents management's examination and analysis of the board's financial condition and performance.

The Board uses the accrual basis of accounting for financial statement reporting and the statements have been prepared in accordance with generally accepted accounting principles. The financial statements include statements of net position, statements of revenues and expenses, changes in net position, and statements of changes in cash flows.

The statement of net position presents the financial position of NACO on the accrual basis of accounting. This statement provides information on NACO' s assets, deferred outflows, liabilities, deferred inflows and the difference reported as net position.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the financial statements. The notes present information about the Board's accounting policies, significant account balances and activities, material risks, obligations, commitments contingencies and subsequent events, if any.

Proprietary fund

NACO maintains an enterprise fund, a type of proprietary fund, to report the same functions presented as business-type activities in the government-wide financial statements. The enterprise fund accounts for NACO activity.

Financial Highlights

NACO' s assets increased in 2018 by $81,548, to $1,579,983. The increase is mostly attributable to the increase in cash from $312,386 to $419,023. This increase is due in large part to efficient operations with a reduction in expenses during the year. There was also a small increase to NACO dues attributable to a slight increase in county revenues, upon which part of the due's formula is based.

Of the total assets, $15,830 consists of unrestricted assets. NACO's primary revenue resources remain county membership dues, including public lands assessment dues and conference fees at $572,026 an increase of $15,183 compared to prior year amount of $556,843. The remainder of the revenues include a contract with the State of Nevada in the amount of $65,000 to administer the Fund for Hospital Care to Indigent Persons and national programs and interest income.

By far, the largest portion of NACO assets continues to be investments in the amount of $587,817. Investments during the year decreased $10,818 or 1.8% due to decreases in fair market values of investments primarily risk assets during the year. See Note 2 Deposits and Investments on page 12 for more information. At the end of the fiscal year, NACO had $419,023 cash or cash equivalents. NACO's liabilities for the year ending December 31, 2018 totaling $591,440. Of this amount, current liabilities associated with accounts payable and accrued expenses were $14,176 and $6,343. Non-current liabilities include $9,652 attributable to accrued vacation and sick leave for employees. The remaining liability balance of $561,269 was attributable to PERS net pension liability. NACO's net position increased $59,882 during the year from $920,474 to $980,356 demonstrating continued financial strength.

Economic Factors

The budget of the Nevada Association of Counties is comprised in part of dues collected from member counties. Dues are calculated using a formula based on three components: Audited Schedule 1 revenues, population, and the amount of the most recent federal Payment in Lieu of Taxes (PILT) payment made to each county. NACO enjoys 100% county participation with all 17 counties paying their fully assessed dues in 2018. Any changes in the financial market economy that are reflected in the stock and bond markets are reflected in accounts held by NACO. See Note 2-Deposits and Investments for more details.

New Accounting Pronouncements

The Government Accounting Standard Board issued Statement 75 which is to be implemented in 2018. The standard provides guidance on how other postretirement benefit liabilities are to be reported along with footnoted disclosures. Management has not implemented this new statement as the additional costs for the actuary and audit had not been budgeted. Therefore, the financial statements do not reflect the expense and other postretirement benefit liabilities in accordance with the new standard.

Financial Statement Analysis

A condensed statement of position is provided below to display the changed in assets, deferred outflows, deferred inflows liabilities and net position.

Condensed statements of net position	**2018**	**2017**	**Change**
Cash & equivalents	$ 419,023	$ 312,386	$ 106,637
Investments	587,817	598,635	(10,818)
Accounts receivable	6,487	2,606	3,881
Other assets	2,130	1,980	150
Fixed assets (net)	433,526	451,828	(18,302)
Land	131,000	131,000	-
Deferred outflows	166,423	191,230	(24,807)
Total assets and deferred outflows	1,746,406	1,689,665	56,741
			-
Accounts payable	14,176	14,421	(245)
Accrued expenses	6,343	4,279	2,064
Compensated absences	9,652	9,257	395
Net pension liability	561,269	653,604	(92,335)
Deferred inflows	120,288	47,130	73,158
Deferred revenues	54,322	40,500	13,822
Net position	980,356	920,474	59,882
Total liabilities, deferred inflows and net position	$ 1,746,406	$ 1,689,665	$ 56,741

The following condensed statement of activities displays changes in the revenues and expenditures accounts when compared to prior year.

Condensed statements of activities	**2018**	**2017**	**Change**
Revenues:			
Membership/ assessments dues and conference fees	$ 572,026	$ 556,843	$ 15,183
Indigent accident and supplemental programs	65,000	70,000	(5,000)
National programs and assiciate members	39,206	29,922	9,284
Other income	25,362	209	25,153
Total operating revenues	701,594	656,974	44,620
Expenses:			0
Salaries and employee benefits	328,500	338,324	(9,824)
Pension expense	83,788	120,962	(37,174)
PEBP post retirement benefits	1,217	1,460	(243)
Building maintenance, repairs & property tax	7,551	8,977	(1,426)
Utilities	5,805	6,035	(230)
Legislative	1,268	4,850	(3,582)
Membership conference	39,123	25,100	14,023
Publications and printing	9,250	8,089	1,161
Office and other operating expense	61,824	51,891	9,933
Staff and representative travel	28,882	28,786	96
Vehicle expenses	5,974	7,917	(1,943)
Professional fees	20,845	19,225	1,620
Special projects & studies	25,122	2,925	22,197
Depreciation and amortization	17,801	32,128	(14,327)
Total expenses	636,950	656,669	(19,719)
Operating income	64,644	305	64,339
Increase (decrease) in non-operating investment income	(4,762)	34,487	(39,249)
Total non-operating revenues	(4,762)	34,487	(39,249)
Change in net position	$ 59,882	$ 34,792	$ 25,090

Conclusions

NACO continues to be in a strong financial position showing a net increase of $59,882 in net position at the end of the year. Diversified investments and assets, including the office building, provides NACO with a high level of financial security and stability. While Nevada continues to see economic growth, NACO should continue to closely monitor the financial condition of all the counties to assure that it can rely on membership dues as its most significant sources of revenue. Staff continues to identify opportunities to diversify and enhance revenues including; seeking state and federal grant opportunities, and opportunities for additional revenue through participation in national programs including the usage of existing agreements with Nationwide Retirement Solutions, for which NACO receives a royalty, and seeking other marketing and service agreements that would be of benefit to Nevada's counties. NACO staff works diligently to efficiently manage operational expenses.

This financial report is designed to provide a general overview of the financial activity and condition of the Nevada Association of Counties, for all of those with an interest in the Association. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 304 South Minnesota Street, Carson City, Nevada 89703 or email at dstapleton@nvnaco.org or access the NACO web-site at NVNACO.ORG.

Dagny Stapleton
Executive Director
July 26,2019

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
STATEMENT OF NET POSITION
December 31, 2018 and 2017

ASSETS	**2018**	**2017**
Current assets:		
Cash and cash equivalents	$ 419,023	$ 312,386
Investments	587,817	598,635
Accounts receivable	6,487	2,606
Other assets	2,130	1,980
Total current assets	1,015,457	915,607
Fixed Assets:		
Fixed assets net of accumulated depreciation	433,526	451,828
Land	131,000	131,000
Total fixed assets	564,526	582,828
Total assets	**1,579,983**	**1,498,435**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	166,423	191,230
Total deferred outflows of resources	**166,423**	**191,230**
LIABILITIES		
Current Liabilities:		
Accounts payable	14,176	14,421
Accrued expenses	6,343	4,279
Total current liabilities	20,519	18,700
Non-current liabilities:		
Compensated absences	9,652	9,257
PERS net pension liability	561,269	653,604
Total liabilities	**591,440**	**681,561**
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	120,288	47,130
Deferred revenues	54,322	40,500
Total deferred inflows of resources	**174,610**	**87,630**
NET POSITION		
Unrestricted	415,830	337,646
Invested in capital assets, net of related debt	564,526	582,828
Total net position	**$ 980,356**	**$ 920,474**

See accompanying notes

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
STATEMENT OF REVENUES AND EXPENSES & CHANGES IN NET ASSETS
Years ended December 31, 2018 and 2017

	2018	2017
Revenues		
Membership dues	$ 352,846	$ 349,554
Public lands assessment dues	130,923	128,166
Conference revenues	88,257	79,123
Indigent accident and supplemental programs	65,000	70,000
National programs and associate members	39,206	29,922
Interest income	240	209
Other income	25,122	-
Total revenues	**701,594**	**656,974**
Expenses		
Salaries and employee benefits	328,500	338,324
Pension expense	83,788	120,962
PEBP post retirement benefits	1,217	1,460
Building maintenance, repairs & property tax	7,551	8,977
Utilities	5,805	6,035
Legislative	1,268	4,850
Membership Conference	39,123	25,100
Publications and printing	9,250	8,089
Office and other operating expenses	61,824	51,891
Staff and representative travel	28,882	28,786
Vehicle expenses	5,974	7,917
Professional fees	20,845	19,225
Special projects and studies	25,122	2,925
Depreciation and amortization	17,801	32,128
Total expenses	**636,950**	**656,669**
Increase in operating net position	**64,644**	**305**
Increase (decrease) in non-operating net investment	(4,762)	34,487
Increase in net position	**59,882**	**34,792**
Net position at beginning of year	920,474	885,682
Net position at end of year	**$ 980,356**	**$ 920,474**

See accompanying notes

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
STATEMENT OF CASH FLOWS
Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts	$ 711,535	$ 724,868
Payments to employees	(328,105)	(350,706)
Payments to vendors	(283,350)	(245,147)
Net cash provided from operating activities	**100,080**	**129,015**
Cash flows from investing activities:		
Purchases of capital assets	-	(1,247)
Sale of securities	185,335	222,753
Purchase of securities	(187,121)	(236,815)
Interest, dividends and net gains or losses on investments	8,343	6,945
Net cash provided (used) for investing activities	**6,557**	**(8,364)**
Increase in Cash and Cash Equivalents	106,637	120,651
Cash and cash equivalents, beginning of fiscal year	312,386	191,735
Cash and cash equivalents, end of fiscal year	**419,023**	**312,386**

Reconciliation of operating income to net cash provided from operating activities		
Net operating income	64,644	305
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	17,801	32,128
(Increase) decrease in receivables	(3,881)	27,394
(Increase) in prepaid expenses	(150)	(52)
Decrease in deferred pension ouflows	24,807	25,183
Decrease in accounts payable	(245)	(1,561)
Increase in accrued salaries	2,064	4,279
Increase (decrease) increase compensated absences	395	(12,382)
(Decrease) increase in PERS net pension liability	(92,335)	14,335
Increase in deferred revenues	13,822	40,500
Increase (decrease) in deferred pension inflows	73,158	(1,114)
Net cash provided by operating activities	**$ 100,080**	**$ 129,015**

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:
The Association (NACO) is a non-profit corporation incorporated in the state of Nevada. The Association was organized for the purpose of aiding member counties in the conduct of general governmental affairs and to influence the state legislature in ways that will benefit county governments and the people they serve.

The Association members are elected officials of various counties in Nevada that they represent. As such, the Association is considered a quasi-governmental organization. The Association is more commonly known as the Nevada Association of Counties or as NACO.

Basis of Presentation, Measurement Focus – Basis of Accounting:
NACO has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. NACO has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments***.**

The financial statements have been prepared based on accounting principles generally accepted in the United States of America for governmental entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash & Investments:
For purposes of the cash flow statements, NACO considers highly liquid asset accounts available for current use within three months or less to be cash equivalents. NACO maintains its cash, cash equivalents and investments in a commercial bank and a brokerage institution. All amounts in the commercial bank are insured by the FDIC or collateralized. Amounts at the brokerage firm up to the SPIC insurance limit are insured through SPIC and additional amounts are insured by the broker through an insurance policy.

Investments consist of marketable securities in corporate and governmental securities. Securities are reported at their fair value on the balance sheet. Fair value is determined utilizing the market value of the investments as reflected on the applicable brokerage statements. Net increases and decreases in the fair value are included in the statement of revenues and expenses and changes in net asset balances.

Accounts Receivable:
Accounts receivable represents amounts earned but not received on the performance of the Indigent Accident Fund grant, the Supplemental grant, and other miscellaneous receivables.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets:
Equipment on the books is depreciated over the estimated useful lives of the assets using the straight-line method and the lives assigned to assets range from 5 years to 10 years. The office building cost is depreciated using the straight-line method over a period of 40 years with no salvage value.

Compensated Absences:
Compensated absences are recorded when the liabilities are incurred. Accumulated benefits are limited to a set maximum.

Revenues:
Revenues are provided through membership fees, sponsor and conference fees, administration of the state's Indigent Accident Fund and Supplemental Fund, national insurance programs, government grants and investment income. NACO receives federal grants and contracts with a private vendor to administer the grants on behalf of NACO for the benefit of its members.

Federal Income Tax:
NACO is exempt from income taxes under section 501(c)(4) of the Internal Revenue Service Code. Tax returns for the years ending December 31, 2018, 2017 and 2016 are open to audit by the Internal Revenue Service.

NOTE 2- DEPOSITS AND INVESTMENTS

NACO, as allowed, maintains its cash, cash equivalents and investments in a commercial bank and a brokerage institution. Amounts in commercial banks are insured by the FDIC for balances up to $250,000. Amounts at the brokerage firm are insured through SPIC and additional amounts are insured by the broker through an insurance policy.

The carrying amount of NACO's deposits at commercial banks on December 31, 2018 and 2017 was $419,023 and $312,386 respectively and the bank balance was $399,359 and $317,577. The difference between the carrying amount and bank balance results from outstanding checks and deposits not yet reflected in the bank's records.

Deposits that are greater than the FDIC insurance limit were $19,070 in 2018 and $67,577 in 2017. When there are balances in excess of FDIC insurance, they are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer.

Credit risk:
Credit risk is the risk of default on a debt security that may arise from an issuer failing to make required interest or principal payments such that NACO will not be able to recover the full interest and principal value of those investments or securities.

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Financial Risk:
NACO limits investments in equities of any one issuer to 5% of the total investment portfolio. No more than 20% of the portfolio may be invested in a single industry. NACO limits investments in fixed income securities of any one issuer to 10% of the total portfolio and no security may be purchased that has a maturity date greater than 30 years. The policy does not place a limit on the purchase of U.S. Government and U.S. Government backed securities.

Interest Rate Risk:
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NACO's policy for managing its exposure to fair value losses arising from increasing interest rates is to be invested in a range of 0% to 70% in fixed income securities, 0% -50% in equities and 0% to 100% in cash.

A summary of investments as of December 31, 2018 is as follows:

		Investment Maturities in Years			
	Fair Value	**1 year or less**	**1-5**	**5-10**	**Over 10**
U.S. Treasuries	$ 83,987	$ -	$ 22,001	$ 61,986	$ -
U.S. Government & Agencies	11,811	-	7,787	4,024	-
U.S. Mortgage-backed securitie	178,897	-	39,518	82,030	57,349
Corporate bonds	152,257	8,011	95,737	48,509	-
Equity securities	160,865	160,865	-	-	-
Total cash and investments	**$ 587,817**	**$ 168,876**	**$ 165,043**	**$ 196,549**	**$57,349**

A summary of investments as of December 31, 2017 is as follows:

		Investment Maturities in Years			
	Fair Value	**1 year of less**	**1-5**	**5-10**	**Over 10**
U.S. Treasuries	$ 56,168	$ -	$ 17,828	$ 38,340	$ -
U.S. Government & Agencies	11,809	$ -	$ 11,809	$ -	$ -
U.S. Mortgage-backed securitie	124,829	$ -	$ 26,035	$ 69,574	$ 29,220
Corporate bonds	211,995	$ 9,054	$ 152,218	$ 50,723	$ -
Equity securities	193,834	$ 193,834	$ -	$ -	$ -
Total cash and investments	**$ 598,635**	**$ 202,888**	**$ 207,890**	**$ 158,637**	**$29,220**

Actual maturities may differ from contractual maturities as some borrowers have the right to call or repay with or without call or prepayment penalties. Investments are reported at fair value by the investment broker as determined by an outside pricing firm. Corporate bonds are rated by S&P as AAA to BBB+.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Depreciation is taken on the financial statements over the estimated useful lives of the assets using the straight line method. It is believed by management that the useful lives of furniture, equipment and vehicles range from five to ten years with no salvage value. NACO's policy is to capitalize assets costing $1,000 or more. For buildings, the useful life is deemed to be 40 years with no salvage value. When assets are disposed of the cost and related accumulated depreciation are removed from the general ledger and any resulting gain or loss is recognized in operations.

Activity for the years ended December 31 was as follows:

	Useful life	December 31, 2017	Additions	Dispositions	December 31, 2018
Building and improvements	40	$ 538,217	$ -	$ -	$ 538,217
Furniture and equipment	5 – 10	174,861	-	(501)	174,360
Vehicles	5 – 10	32,878	-	-	32,878
Total Assets		745,956	-	(501)	745,455
Accumulated depreciation		(294,128)	(17,801)	-	(311,929)
		$ 451,828	**$ (17,801)**	**$ (501)**	**$ 433,526**

		December 31, 2016	Additions	Dispositions	December 31, 2017
Buildings	40	$ 538,217	$ -	$ -	$ 538,217
Furniture and equipment	5 – 10	173,614	1,247	-	174,861
Vehicles	5 – 10	32,878	-	-	32,878
Total Assets		744,709	1,247	-	745,956
Accumulated depreciation		(262,001)	(32,127)	-	(294,128)
		$ 482,708	**$ (30,880)**	**$ -**	**$ 451,828**

NOTE 4 - RELATED PARTY TRANSACTIONS

Various directors of NACO also serve on the board of the Indigent Accident Fund, an agency who contracts with NACO for claims administration. Revenues of $65,000 and $70,000 in 2018 and 2017 from these contracts are identified on the financial statements as Indigent Accident and Supplemental Programs. Mr. Wayne Carlson, executive director of the Nevada Public Agency Insurance Pool, is authorized to sign checks of NACO in the absence of NACO's executive director with one other NACO authorized signer. NACO contracts with PARMS for bookkeeping services and paid fees of $12,000 in 2018 and 2017. PARMS is solely owned by Mr. Wayne Carlson.

NOTE 5 – LEASES

Copier
In January of 2016 NACO entered into a lease agreement with Sierra Office Solutions for a high-speed copy machine replacing the existing leased machine. The copier lease is classified as an operating lease with minimum monthly payment of $232.53 for 60 months. The expenses charged to expense for 2018 and 2017 was $2,790 for each year. Minimum lease payments are as follows:

2019		2,790
2020		2,790
Total	**$**	**5,580**

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLANS

A. General Information about the Pension Plans

Defined Benefit Plan Description – All qualified permanent and probationary employees are eligible to participate in the Board's Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the Public Employees' Retirement System of Nevada (PERS). Benefit provisions under the Plans are established by State statute and Board resolution. PERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the PERS website.

Benefits Provided – PERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. For regular members entering the System before January 1, 2010, regular members are eligible for retirement at age 65 with five years of service, at age 60 with 10 years of service, or at any age with thirty years of services. For regular members entering the System on or after January 1, 2010, regular members are eligible for retirement at age 65 with five years of service, or age 62 with 10 years of service, or any age with thirty years of service.

Contributions – The contributions are made in accordance with the required rates established by the Nevada Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450. Funding contributions for the Plans are determined bi-annually on an actuarial basis as of June 30 by PERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLAN (continued)

The Plans' provisions and benefits in effect at December 31, 2018 are summarized as follows:

	Prior to	Between July 1, 2001	On or after	On or after
Hire date	July 1, 2001	and January 1, 2010	January 1, 2010	July 1, 2015
Benefit formula	2.50%	2.67%	2.50%	2.25%
Benefit vesting option 1	5 years service @65	5 years service @65	5 years service @65	5 years service @65
Benefit vesting option 2	10 years service @60	10 years service @60	10 years service @62	10 years service @62
Benefit vesting option 3	any age with 30 years service	any age with 30 years service	any age with 30 years service	30 years service @55
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-55	52-67	52-67	52-67
Monthly benefits as a % of eligible	2.50%	2.67%	2.50%	2.25%
Required employer contributions rates	unavailable	unavailable - 21.5%	28%	28%

For the year ended December 31, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$78,158

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the valuation date of June 30, 2019, NACO reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate share of Net pension Liability
Miscellaneous plan	$561,269

NACO's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to December 31, 2018 using standard update procedures.

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLAN (continued)

NACO's proportion of the net pension liability was based on a projection of the NACO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Board's proportionate share of the net pension liability as of June 30, 2017 and 2018 was as follows:

June 30, 2017	0.00491%
June 30, 2018	0.00412%
Change-Increase (decrease)	-0.00079%

For the year ended December 31, 2018, NACO recognized a pension expense of $83,788.

At December 31, 2018, NACO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 26,053
Changes in assumptions	(13,785)	-
Net difference between projected and actual earnings on pension plan investments	13,339	2,672
Changes in proportion and differences between NACO contributions and proportionate share of contributions	127,790	91,563
NACO contributions subsequent to the measurement	39,079	-
Total	$ 166,423	$ 120,288

$39,079 reported as deferred outflows of resources related to contributions to NVPERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLAN (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions without regard to contributions subsequent to the measurement date, are expected to be recognized as pension expense as follows:

Measurement Period Ended June 30:		
2020	$	12,861
2021		3,425
2022		(8,817)
2023		4,772
2024		5,471
2025		(10,656)
Thereafter		-
	$	7,056

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation date	June 30, 2018
Measurement date	June 30, 2018
Actuarial Cost Method	Entry -Age Normal Cost
Actuarial Assumptions:	
Consumer Price Index	2.75%
Inflation	2.75%
Payroll growth	5.00%
Projected salary increase	4.25-13.9%
Productivity pay increases	0.50%

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of the experience review completed in 2018. Further details of the Experience Study can be found on the PERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.5% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2018, was projected to be available to make all projected future benefit payments of current active and inactive employees.

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLAN (continued)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018 and June 30, 2017.

The System's Investment Objectives and Policies detail the fund's long-term investment goals, management responsibilities, return/risk expectations, and monitoring requirements. These policies are subject to change at any time by the Board and are reviewed thoroughly at least annually to ensure that they continue to reflect the System's expectations.

Asset allocation is the most significant factor influencing the risk and return of the investment program. Since inception 98% of the System's investment performance is explained by asset allocation. Determination of the fund's long-term asset allocation involves estimating the expected return and risk of major types of investments and blending them into a portfolio which meets the System's risk/return objectives.

To establish an appropriate long-term asset allocation strategy, the Board evaluates expected return and risk for each of the major asset types (stocks, bonds, private markets). These asset classes are then combined in the most efficient manner possible to construct a portfolio that matches the risk and return needs of the fund. By diversifying the System's investments in multiple asset classes, the Board can reduce the volatility of annual investment earnings. The Board reviews capital market expectations and asset allocation annually. In addition, the Board employs a disciplined rebalancing policy to manage market volatility and to ensure the portfolio's exposures are consistent with the System's long-term asset targets.

Additional information on the discount rate, investment strategy and diversification is available in the PERS CAFR which can be found at www.nvpers.org.

The System's policies which determine the investment portfolio target asset allocation are established by the Board. The asset allocation is reviewed annually and is designed to meet the future risk and return needs of the System.

Asset Class	Target Allocation	Long-Term Geometric Expected Real Rate of Return*
Domestic Equity	42%	5.50%
International Equity	18%	5.75%
Domestic Fixed Income	30%	0.25%
Private Markets	10%	6.80%

NOTE 6 –DEFINED BENEFIT PENSION COST-SHARING EMPLOYER PLAN (continued)

S***ensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the net pension liability of the PERS as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current discount rate:

	Discount rate -1% (6.5%)	Current Discount Rate (7.5%)	Discount Rate +1% (8.5%)
Misc. Tier1	$856,837	$561,269	$316,779

Additional information supporting the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer is in the PERS Comprehensive Annual Financial Report (CAFR) available on the PERS website.

NOTE 7 – DEFERRED COMPENSATION PLAN

NACO offers a defined contribution plan in accordance with IRS code section 457(b) to its employees. Employee contributions are voluntarily and are made on a pre-tax basis. Employer contributions are discretionary and in the current year the organization elected to not make any contributions. Employees contributed $12,175 and $21,850 for the years ended 2018 and 2017. NACO Services, a subsidiary of the National Association of Counties, sponsors the deferred compensation program, which is administered by Nationwide Retirement Solutions.

NOTE 8 - INSURANCE

NACO is a member of the Nevada Public Agency Insurance Pool (POOL) and Public Agency Compensation Trust (PACT) which was formed by various Nevada municipalities for the purpose of reducing insurance premiums and providing more stable insurance costs for its members. If claims, and expenses exceed net assets of the Pool or Pact, special assessments may be made to their members. Pool provides property and casualty insurance and Pact provides workers compensation coverage.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

Plan Description:
NACO contributes to an agent multiple employer defined benefit postemployment healthcare plan, Public Employees' Benefits Plan (PEBP), for eligible retired employees as per NRS 287.023. The plan provides medical, vision, dental, and life insurance benefits to eligible retired employees. Employees of NACO are not eligible for participation in the Plan, but if an employee qualifies for the Plan based on service years as an employee of the State of Nevada, NACO may be required to contribute toward the costs of providing postemployment benefits. NRS 287.043 assigns the authority to establish and amend benefit

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (continued)

provisions to the PEBP nine-member board of trustees. Local governments are required to pay their pro-rata cost to provide coverage for persons joining PEBP. Some of NACO's past and current employees may qualify for participation in the plan in the future. As of the date of the Independent Auditors' Report, only one past employee is a participant in the Plan. Complete financial statements for the State Retirees' Health and Welfare Benefits Trust Fund can be obtained from PEBP at 901 South Stewart Street, Carson City, Nevada 89701.

Funding Policy:
PEBP, NRS 287.046 establishes the subsidies to be contributed toward the premium costs of the eligible retired employees. The unsubsidized retiree plan rates vary dependent upon which plan type the retiree chooses and their years of covered employment. The participating plan member's monthly contribution is deducted from their pension checks based on the plan chosen, reduced by the amount of the subsidy; therefore, their contribution amounts are not available.

For the plan year ended December 31, 2018 and 2017 there was one former employee who receives a subsidy from NACO for their OPEB. As a participating employer, NACO is billed for their portion of the subsidy on a monthly basis and is legally required under NRS 287.023 to provide for it. For fiscal years 2018 and 2017 NACO was billed for $1,217 and $1,460 its share of the subsidy. The contribution requirements of plan members and NACO are established and amended by the PEBP Board of Trustees. Payments will be made annually as calculated by PEBP and expensed when paid.

The Government Accounting Standard Board issued Statement 75 to be implemented in 2018. This standard provides guidance on how other post-retirement are to be reported along with footnoted disclosures. Management has not implemented this new statement.

NOTE 10 –SUBSEQUENT EVENTS

Management has evaluated the activities and transactions subsequent to December 31, 2018 to determine the need for any adjustments to, and disclosure within the financial statements for the year ended December 31, 2018. Management has evaluated subsequent events through July 31, 2019 which is the date the financial statements were available for issue. As of this date there were no known subsequent events.

SUPPLEMENTAL INFORMATION

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
SUPPLEMENTAL INFORMATION – BUDGET TO ACTUAL COMPARISON
December 31, 2018

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance
OPERATING REVENUES:				
Membership dues	$ 352,846	$ 352,846	$ 352,846	$ -
Public lands assessment dues	130,924	130,924	130,923	(1)
Conference fees	88,192	88,192	88,257	65
Indigent accident and supplemental programs	70,000	70,000	65,000	(5,000)
National programs and associate sponsors	27,530	27,530	39,206	11,676
Interest income	15,000	15,000	240	(14,760)
Other income	-	-	25,122	25,122
Total operating revenues	**684,492**	**684,492**	**701,594**	**17,102**
OPERATING EXPENSES:				
Salaries and employee benefits	350,723	350,723	328,500	22,223
Pension expense	85,640	85,640	83,788	1,852
PEBP post retirement benefits	1,552	1,552	1,217	335
Building maintenance, repairs & property tax	18,403	18,403	7,551	10,852
Utilities	-	-	5,805	(5,805)
Legislative	3,000	3,000	1,268	1,732
Membership conference	45,000	45,000	39,123	5,877
Publications and printing	18,734	18,734	9,250	9,484
Office and other operating expense	57,490	57,490	61,824	(4,334)
Staff and representative travel	35,000	35,000	28,882	6,118
Vehicle expenses	3,000	3,000	5,974	(2,974)
Professional fees	25,542	25,542	20,845	4,697
Special projects and studies	71,000	71,000	25,122	45,878
Depreciation and amortization	-	-	17,801	(17,801)
Total expenses	**715,084**	**715,084**	**636,950**	**78,134**
Operating income	**(30,592)**	**(30,592)**	**64,644**	**95,236**
NON-OPERATING REVENUES				
Increase in non-operating investment income	-	-	(4,762)	(4,762)
Total non-operating revenues	**-**	**-**	**(4,762)**	**(4,762)**
Increase (decrease) in Net Position	**$ (30,592)**	**$ (30,592)**	**$ 59,882**	**$ 90,474**

See accompanying notes

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
SCHEDULES OF NACO'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Nevada Association of Counties Pension Plan

Last 10 Fiscal Years*

Actuarial Valuation Date	NACO's proportion of the net pension liability (asset)	NACO's proportionate share of the net pension liability (asset)	NACO's covered-employee payroll	NACO's proportionate share of then net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
Miscellaneous First Tier Plan					
6/30/2018	0.00412%	$561,269	$286,989	195.57%	75.1%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

See accompanying notes

NEVADA ASSOCIATION OF COUNTY COMMISSIONERS
SCHEDULES OF NACO'S CONTRIBUTIONS
Nevada Association of Counties Pension Plan

Last 10 Fiscal Years*

Actuarial Valuation Date	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	NACO's covered employee payroll	Contribution as a percentage of covered employee payroll
Miscellaneous First Tier Plan					
6/30/2018	$80,357	($80,357)	$0	$286,989	28.00%

* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

See accompanying notes

Agenda Item 11

Nevada Association of Counties
Proposed Capitalization Policy
July 2019

Background Information

Currently NACO's policy is to capitalize assets costing $1,000 or more. During the 2018 independent audit, it was recommended that NACO consider increasing the capital threshold. This proposed change in Capitalization Policy would be in agreement with the Government Finance Officers Association (GFOA) best practice guidelines for Capitalization Thresholds for Capital Assets. See attached document.

Overview

The term *capital assets* is used to describe assets that are used in operations and that have initial lives extending beyond a year. As a practical application of the materiality principle, not all tangible capital-like items with useful lives extending beyond a year are required to be reported as a capital asset. Items with extremely short useful lives (less than 2 years) or of small monetary value are properly reported as "expenses" in the period in which they are acquired. When outlays for capital-type items are, in fact, reported on the statement of position, they are said to be capitalized and depreciated over their estimated useful life. The monetary criterion used to determine whether a given capital asset should be reported is called the capitalization threshold. Capital thresholds are best applied to individual items rather than to groups of similar items. GFOA's best practices indicates in no case should a government establish a capitalization threshold of less than $5,000 for any individual item. It is recommended that the governmental entities exercise control over potentially capitalizable items that fall under the operative capitalization threshold for safeguarding control practices.

<u>Capitalization Policy</u>

Nevada Association of Counties capitalization policy is to capitalize individual items that have an estimated useful life of at least two years and a cost of $5,000 or more. NACO will maintain a list of all capital assets and maintain controls over these assets which will include doing an inventory every year.

Agenda Item 12

Nevada Association of Counties
Proposed Investment Guidelines
July 2019

Investment Guidelines

1. Scope

This investment policy applies to all financial assets of Nevada Association of Counties (NACO). These funds are accounted for in NACO's annual financial report.

2. Statement of Purpose

The purpose of the NACO Investment Guideline is to provide a general policy that will establish a framework that will be used to identify and define objectives, goals, standards and performance measurement of NACO investments. Within this general framework, NACO will structure an investment portfolio which is designed to attain a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints established by NACO, cash flow characteristics of the portfolio and operating demands.

Investment goals and objectives will be defined and established by the NACO Board on an annual basis with input from investment professionals and administrative staff.

The NACO investment portfolio will be designed following these key objectives:

- Liquidity - To provide adequate liquidity to meet all operating obligations that reasonably may be anticipated within the current operating cycle.

- Income and Growth - To structure an investment portfolio which is designed to attain a rate of return that is:
    - Competitive with portfolios with similar characteristics
    - Provides a balanced return of current income and modest growth of principal
    - Achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power

- Safety of principal - Safety of principal is an important objective of the investment program. NACO seeks to preserve principal and achieve the maximum return possible given pre-determined risk constraints and liquidity demands. To attain this objective, diversification is required.

3. Investment Strategy:

The investment strategy is NACO's plan of distributing assets among various investments, taking into consideration such factors as operating demands, goals, risk tolerance and horizon. Based on the investment goals and objectives, NACO will establish a balanced investment strategy which is a method of portfolio allocation designed to provide both income and capital appreciation while avoiding excessive risk. NACO may retain the services of qualified investment entities (investment managers) to provide professional advice, guidance, market information, trends, training and investment. Investments will be directed by this investment guideline policy.

Investment strategy will conform to the provisions of Nevada Revised Statutes.

Prudent Investor Rules apply. The Prudent Investor Rules state that a fiduciary must:

1) Make investment and management decisions with respect to individual assets in the context of the investment portfolio as a whole and as part of an overall investment strategy, not in isolation.
2) Adhere to fundamental fiduciary duties of loyalty, impartiality, and prudence.
3) Maintain overall portfolio risk at a reasonable level. That is, risk and return objectives must be reasonable and suitable to the portfolio. The tradeoff between risk and return is the fiduciary's central concern.
4) Provide for the reasonable diversification of investments.
5) Act with prudence in deciding whether and how to delegate authority to experts and in selecting supervising agents. Be cost conscious when investing. The fiduciary should incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the fiduciary

4. Investment Risk:

It is the policy of NACO to invest in a variety of investments including predominantly stocks, bonds, treasuries, cash and cash equivalents to provide both income and capital appreciation while avoiding excessive risk and preserving principal over time. Various types of risks and related mitigation strategies will be considered.

5. Investment Responsibility

A. Investment authority for NACO rests with the Board of Directors.

B. The Board of Directors or its designee may contract with investment advisor(s) to advise and manage the NACO's investments. Such advisor(s) shall provide a comprehensive report at least annually to the Board of Directors or its designee of all transactions and the investment performance of funds under management. The report shall suggest changes in policies or improvements that might be made in the investment program.

C. The Board of Directors or its designee will monitor all investment activity as closely as is practicable. The Board of Directors or its designee will direct

managers/advisors regarding day-to-day investments. In all cases, the Board of Directors or its designee will:

1. Ensure that all investments are made in accordance with NACO policies;

2. Consider the status of investment policy and strategy;

3. Inventory all securities held by NACO (This shall be done in conjunction with the annual CPA audit);

4. Prepare and maintain monthly reports of all investment activity; the report shall include a listing of all securities bought, sold and matured; the report will also include a status of all investments held;

5. Review the investment report at least annually, and at the next available meeting shall make the review a matter of record in the minutes;

6. Require that officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions; Such persons shall disclose to the Fiscal Officer or to the Chairman of the Board any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of NACO;

7. Review this investment policy and the asset allocation, diversification and risks at least annually and at any other time as needed to fulfill its fiduciary responsibility, and will make modifications as deemed necessary;

8. Support periodic training with respect to investments and investment management.

6. Authorized Investments

Federal, state and other laws and regulations that govern Nevada corporations stipulate eligible investments; such laws and regulations will supersede other viable investment alternatives that may be considered.

The following are eligible investments subject to asset allocation:

A. Fixed income securities, mutual funds and ETFs
B. Equity securities, mutual funds, and ETFs
C. Cash and Cash Equivalents
D. Other securities

Any Master Repurchase Agreement must be signed with the bank or dealer.

If governmental sponsored pools and/or mutual funds are to be utilized, a thorough investigation of the pool/fund is required prior to investing, and on a continual basis. Transparency of strategy and results should be primary criteria for involvement in such pools/funds. The following general information should be considered by the manager as appropriate and addressed as necessary:

1. A description of the eligible investment securities, and a written statement of investment policy and objectives
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced, and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. A statement regarding utilization by the pool/funds of reserves or retained earnings.
7. A fee schedule and when and how it is assessed.
8. A statement regarding whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

7. Prohibited Transactions

The following types of assets or transactions expressly are prohibited, except where such transactions occur within a managed or mutual fund as an incidental strategy and such characteristics are noted as such and accepted by the Board:

1. Options contracts: the purchase and sale of put and call options, except for the writing of covered call options for capital preservation purposes. This does not include fixed income securities that have a put or call feature.
2. Commodities or other commodity contracts
3. Private placements
4. Purchase of equity securities on margin
5. Short selling
6. Interest-only (IO), Principal-only (PO), and CMO residuals
7. Transactions that would leverage investment positions except for securities lending operations
8. Off balance sheet derivatives
9. Limited partnerships
10. Venture capital investments
11. Direct mortgage lending or participation in direct mortgage loans
12. Letter stock and other unregistered securities
13. Securities lending, pledging or hypothecating securities

14. Investment in the equity securities of any company with a record of less than three years' continuous operations, including the operation of any predecessor, and investments for the purpose of exercising control of management.

8. Authorized Financial Dealers and Institutions

The Officers will maintain a list of financial institutions and mutual fund companies authorized by the Board to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Officers with the following evidence of qualifications:

A. audited financial statements (two years or more)
B. proof of National Association of Security Dealers certification
C. trading resolution
D. proof of Nevada registration
E. certification as having read NACO's Investment Guidelines and depository contracts
F. service auditors reports (SSAE 16 if available) regarding internal controls
G. Resumes and references.

An annual review of the financial condition and registrations of qualified bidders and mutual fund companies will be conducted by the Fiscal Officer or their designees. A current audited financial statement is required to be on file for each primary financial institution and broker/dealer with which NACO invests or transacts.

9. Selection and Performance Review of Investment Managers

The NACO Board of Directors may select appropriate investment managers to manage NACO assets. If the Board uses an investment manager, they must meet the following minimum criteria:

- Be a registered investment advisor under the Registered Investment Advisors Act of 1940 or be a bank, insurance company or investment management company.
- Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- Provide quarterly performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel.
- Clearly articulate the investment strategy that will be followed and document that the strategy successfully has been adhered to over time.
- Have no outstanding legal judgments or past judgments that may reflect negatively on the firm.
- Provide in writing acknowledgement of fiduciary responsibility to NACO.

The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration will be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this investment policy statement.

The Board of Directors shall evaluate the portfolio(s) on an annual basis and reserves the right to terminate a manager for any reason, including the following:

- Investment performance that significantly is less than anticipated given the discipline employed and the risk parameters established or unacceptable justification of poor results.
- Failure to adhere to any aspect of this investment policy statement including communication and reporting requirements.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

10. Investment Guidelines and Limitations

A. General Guidelines

- Diversification. There will be sufficient diversity in the authorized instruments to allow for variety in the makeup of the portfolio. The Board of Directors will review investment activity reports to assure appropriate diversification exists.
- For cash management funds, the following guidelines shall apply: Liquidity shall be assured through practices ensuring that the next disbursement date is covered through maturing investments or marketable U.S. Treasury bills
- Positions in securities having potential default risk shall be limited in size so that in case of default, the portfolio's annual investment income should exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

B. Allocation. The Board will establish an asset allocation commensurate with the investment goals and objective and risk tolerance. The asset allocation will be based on the advice of qualified investment professionals and administrative staff.

The following guidelines shall serve for asset allocation (% of market value), subject to modification by the Board as noted herein:

Asset Allocation	**Minimum**	**Maximum**
Cash & Cash Equivalents	0%	100%
Core Fixed Income	50%	100%
Risk Assets	0%	50%

Core Fixed Income Portfolio – Mutual Fund/ETF	**Maximum**
Cash & Cash Equivalents	100%
Investment Grade Bond Funds	100%

Risk Assets Portfolio – Mutual Fund/ETF	**Maximum**
U.S. Equity	100%
International Equity / Bonds	50%
High Yield / Bank Loan	50%
Real Estate	25%
Indicates the maximum allocation allowable as a percentage of the risk asset portfolio	

When necessary and/or available, cash inflows and outflows will be deployed in a manner consistent with the strategic asset allocation; otherwise the allocation will be reviewed quarterly. If the board determines that cash flows are insufficient to bring the allocations to within the minimum/maximum ranges, the board will determine whether to effect transactions to bring the strategic allocation within the threshold ranges.

C. Maturities. To the extent possible, NACO will attempt to match its investments with anticipated cash flow requirements.

D. Return on Investment. NACO's investment portfolio will be designed with the objective of attaining a market rate of return taking into account NACO's investment risk constraints and the cash flow characteristics of the portfolio.

E. Performance Standards: Performance standards along with the general goals and objectives of NACO will be established by the Board in consultation with and the assistance of professional advisors and administrative staff and changes will be communicated to appropriate investment managers in writing as necessary.

11. Safekeeping and Custody

Securities purchased by NACO will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of NACO. If securities are purchased from outside dealers by an advisor, then securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

The Fiscal Officer or their designees shall maintain a system of internal controls, which shall document investment activities. The investment activities and statements shall be available to the Board of Directors and the independent auditor. The controls shall be designed to prevent the loss of NACO funds arising from fraud, employee error,

misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees, service providers and officers of NACO.

No new custodial account will be established without the express approval of the Board of Directors.

13. Investment Policy Adoption

The Board of Directors will adopt NACO's investment policy. The Board of Directors will review the policy on at least an annual basis and the Board must approve any modifications made thereto.

_____ Date_____
Signature of Chairman of Board Signifying Board Adoption

_____ Date_____
Signature of Executive Director of NACO

APPENDIX – GLOSSARY OF FINANCIAL TERMINOLOGY

- **Agency Debt** – is a security, usually a bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the government, but not guaranteed by the government since the agencies are private entities. Such agencies have been set up in order to allow certain groups of people to access low cost financing e.g. students and home buyers. Some prominent issuers of agency securities are Student Loan Marketing Association (Sallie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency securities are usually exempt from state and local taxes, but not federal tax. Agency debt is also called an agency security.

- **Agency Mortgage-Backed Securities** – Mortgage backed securities with payment of interest and principal guaranteed by FNMA, FHMC, or GNMA.

- **Amortized Value /Book Value -** The book value of the fixed income security is a function of both the original cost of the security purchased, the size of the premium or discount paid for a security and the amount of time between acquisition and the maturity date and/or call date of the security. Reflective of movement between cost and par.

- **Asset-Backed Securities (ABS) -** is a security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

- **Barbell Strategy** – Concentrating the maturities or cash flows of a portfolio in a combination of short maturities and long maturities, while underweighting intermediate maturities, relative to a more laddered maturity distribution or benchmark.

- **Basis Point (Bps) -** A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

- **Book Value -** The value at which an asset is carried on a balance sheet, before market value fluctuations. Typically equals the cost of the security plus or minus the unamortized premiums and discounts.

- **Book Yield -** This is the expected return over a fixed income security's expected life based on its cost. It incorporates both coupon income and accretion or amortization of premiums or discounts. When book yield is multiplied by book value, it represents a close approximation as to actual income to be earned over the near term.

- **Build America Securities (BABS) -** Taxable municipal securities introduced under the 2009 American Recovery and Reinvestment Act to assist municipalities in funding infrastructure projects. The higher taxable interest rate was offset by a 35% subsidy from the federal government. This program was discontinued December 31, 2010.

- **Bullet** – Concentrating the maturities or cash flows of a portfolio in the intermediate portion of a maturity distribution relative to a flatter or more laddered distribution or benchmark.

- **Call Price -** The price, specified at issuance, at which the issuer of a bond may retire part of the bond at a specified call date prior to final maturity.

- **Cash Equivalents -** Investment securities that are short-term, have high credit quality and are highly liquid.

- **Collateralized Mortgage Obligation (CMO)** – A security backed by mortgages (agency or non-agency) with the cash flows separated and directed into short, medium, and long term positions (tranches) as well as in to senior and subordinated tranches. CMO tranches can offer the investor less or more prepayment risk and volatility than the underlying mortgage collateral.

- **Commercial Mortgage Backed Securities (CMBS) -** Securities backed by principal and interest payments from a pool of commercial mortgages and collateralized by the underlying properties.. A CMBS can provide liquidity to real estate investors and to commercial lenders. Because they are not standardized, there are a lot of details associated CMBS that make them difficult to value. However, when compared to a residential mortgage-backed security (RMBS), a CMBS provides a lower degree of prepayment risk because commercial mortgages are most often set for a fixed term.

- **Corporate Securities-** Securities issued by United States and foreign domiciled corporations.
- **Credit support** – Protection from losses provided by other subordinate tranches in a CMO or CMBS structure which take losses first. These may include; excess spread, over collateralization, reserve accounts, surety bonds and wrapping programs.
- **DERIVATIVES**

  "Cap" means an agreement obligating the seller to make payments to the buyer, with each payment based on the amount by which a reference price or level or the performance or value of one or more underlying interests exceeds a predetermined number, sometimes called the strike rate or strike price.

  "Collar" means an agreement to receive payments as the buyer of an option, cap or floor and to make payments as the seller of a different option, cap or floor.

  "Counterparty exposure amount" means:

(A) The net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, qualified foreign exchange or cleared through a qualified clearinghouse. Such derivative instruments are hereinafter referred to as "over-the-counter derivative instruments." The amount of credit risk equals:

(i) The market value of the over-the-counter derivative instrument if the liquidation of the derivative instrument would result in a final cash payment to the insurer; or

(ii) Zero, if the liquidation of the derivative instrument would not result in a final cash payment to the insurer.

(B) If over-the-counter derivative instruments are entered into under a written master agreement which provides for netting of payments owed by the respective parties, and the domiciliary jurisdiction of the counterparty is either within the United States or, if not within the United States, within a foreign jurisdiction listed in the NAIC Purposes and Procedures of the Securities Valuation Office as eligible for netting, the net amount of credit risk shall be the greater of zero or the net sum of:

(i) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment to the insurer; and

(ii) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment by the insurer to the business entity.

(C) For open transactions, market value shall be determined at the end of the most recent quarter of the insurer's fiscal year, and shall be reduced by the market value of acceptable collateral held by the insurer or placed in escrow by one or both parties.

"Covered" means that an insurer owns or can immediately acquire, through the exercise of options, warrants or conversion rights already owned, the underlying interest in order to fulfill or secure its obligations under a call option, cap or floor it has written or has set aside under a custodial or escrow agreement cash or cash equivalents with a market value equal to the amount required to fulfill its obligations under a put option it has written, in an income generation transaction.

"Derivative instrument" means an agreement, option, instrument or a series or combination thereof:

(A) to make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests or to make a cash settlement in lieu thereof; or

(B) that has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests. Derivative instruments include options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures and any other agreements, options or instruments substantially similar thereto or any series or combination thereof and any agreements, options or instruments permitted under this chapter. Derivative

instruments shall not include an investment authorized under subdivisions (1) through (14) and (16) through (29) of section 3463 of Title 8 of the Vermont Code.

"Derivative transaction" means a transaction involving the use of one or more derivative instruments.

"Floor" means an agreement obligating the seller to make payments to the buyer in which each payment is based on the amount by which a predetermined number, sometimes called the floor rate or price, exceeds a reference price, level, performance or value of one or more underlying interests.

"Hedging transaction" means a derivative transaction which is entered into and maintained to reduce:

(A) the risk of a change in the value, yield, price, cash flow or quantity of assets or liabilities which the insurer has acquired or incurred or anticipates acquiring or incurring; or

(B) the currency exchange rate risk or the degree of exposure as to assets or liabilities which an insurer has acquired or incurred or anticipates acquiring or incurring.

"Income generation transaction" means a derivative transaction involving the writing of covered call options, covered put options, covered caps or covered floors that is intended to generate income or enhance return.

"Option" means an agreement giving the buyer the right to buy or receive (a "call option"), sell or deliver (a "put option"), enter into, extend or terminate or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

“Potential exposure" means the amount determined in accordance with the NAIC Annual Statement Instructions, defined in the instructions of Schedule BDB, Part C, Section 1 as:

Potential Exposure = 0.5% x Notional Amount x Square Root of (Remaining Years to Maturity).

"Swap" means an agreement to exchange or to net payments at one or more times based on the actual or expected price, level, performance or value of one or more underlying interests.

"Underlying interest" means the assets, liabilities, other interests or a combination thereof underlying a derivative instrument, such as any one or more securities, currencies, rates, indices, commodities or derivative instruments.

- **Discount** - The excess of the par or face value of a fixed income security over the amount paid for the security, excluding purchased interest.

- **Discount Rate -** The interest rate used in discounted cash flow analysis to determine the present value of future cash flows.

- **Duration -** While duration has many definitions, for purposes of managing fixed-income portfolios, duration is defined as a measure of price volatility. Mathematically, duration is the weighted average time to maturity where the cash flows are present valued by the security's yield. As security calculations are generally done through the concept of present value (price) and discount rate (yield), in a duration calculation, the present values add up to the total purchase price. By weighting them based on when they are to be received, one can predict how the price of a security will change as its yield changes.

- **Effective Maturity /Average Life -** The weighted average amount of time it takes to get your principal (not interest) back. On a bullet (non-callable) security, effective maturity equals nominal maturity. On a callable security, effective maturity could be either the call date or the maturity date, depending on whether the security is trading at a premium or a discount to its call price. On amortizing securities (mortgage backed securities, asset backed securities, commercial mortgage backed security and securities with sinking funds) the effective maturity is the weighted average date of all principal payments, based on both scheduled and unscheduled (but projected) payments.

- **Emerging Markets** – are nations with social or business activity in the process of rapid growth and industrialization. The economies of China and India are considered to be the largest. According to "The Economist" many people find the term outdated, but no new term has yet to gain much traction. Emerging market hedge fund capital reached a record new level in the first quarter of 2011 of $121 billion. The eight largest emerging and developing economies by GDP are China, Brazil, Russia, India, Mexico, South Korea, Indonesia, and Turkey.

- **Excess Return** – A security's return minus the return of a comparable risk-free security. For most U.S. fixed income sectors, it is a security's return less the return of a comparable duration Treasury security.

- **Exchange Traded Fund (ETF)** – are securities that closely resemble index funds, but can be bought and sold during the day just like common stocks. These investment vehicles allow investors a convenient way to purchase a broad basket of securities in a single transaction. Essentially, ETFs offer the convenience of a stock along with the diversification of a mutual fund.

- **Factor** – The percentage of the original principal that is left to be distributed in a mortgage-backed security, as represented by a numerical factor that will be attached on periodic market quotes and other presentations of the MBS's price.

- **Final Maturity -** Final maturity refers to the date at which the last amount of principal is scheduled to be received.

- **Fixed Income Securities -** Marketable securities purchased primarily for their current yield rather than capital appreciation potential. These securities customarily have a stated interest

rate payable periodically. Examples: first mortgage bonds, treasury notes, municipal bonds and corporate notes. Specifically excluded from this classification are convertible bonds and preferred stock.

For fixed-income securities that have interim cash flows (coupons), total return is the difference between ending market value and beginning market value, plus the difference between ending and beginning accrued interest, plus coupons received, divided by beginning market value plus beginning accrued interest plus the time weighted cash flow for the period.

- **General Obligation Securities (G.O.)**- Debt obligations issued by states, counties, special districts, cities, towns, and school districts and usually secured by the unlimited taxing power of the issuer. Tax types vary; property, income, sales, special taxes. Where taxing authority is not unlimited, these are known as limited tax G.O.s. Issues supported by general taxing authority but special fees, charges, grants, etc, are known as double barrelled securities. These issues may be both taxable and non-taxable.
  - Generally speaking, a security's price and its yield move in an inverse relationship. So, when yields decrease, prices increase and when yields increase, prices decrease. This is reflective of the present value (price) and discount rate (yield) applied to the future cash flows of a fixed income security.

- **Government Securities** - Securities issued by one of the U.S. Agencies, Government Sponsored Enterprises ("GSE"), such as the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Company (FHLMC), or the Federal Home Loan Bank (FHLB), dollar-denominated securities issued by foreign governments or their agencies, supranational, and local authorities .
  - In practice, duration is the simplest measure of the amount of price sensitivity a security has to changes in interest rates.

- **Growth Stock** - is a stock of a company that generates substantial and sustainable positive cash flow and whose revenues and earnings are expected to increase at a faster rate than the average company within the same industry. A growth company typically has some sort of competitive advantage (a new product, a breakthrough patent, overseas expansion) that allows it to fend off competitors. Growth stocks usually pay smaller dividends, as the company typically reinvests retained earnings in capital projects.

- **High Yield Bond (non-investment grade, speculative or junk bonds)** – is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors. Bonds rated BBB− and higher are called investment grade bonds. Bonds rated lower than investment grade on their date of issue are called speculative grade bonds, or colloquially as "junk" bonds. The lower-rated debt typically offers a higher yield, making speculative bonds attractive investment vehicles for certain types of financial portfolios and strategies.

- **Investment Income** - For fixed-income securities, the components of investment income include income coming from coupon payments plus or minus the change in accrued interest

from the beginning to the end of the period plus or minus the amortization or accretion of the cost basis to par value (this would equate to the change in book value) of the security.

- **Market Value** – often referred to as "fair value", these are indicative of the price at which the securities could be sold in an active market. The vast majority of prices are obtained from a third-party pricing vendor. These prices do not represent actual 'bids' for individual securities but provide a close approximation of the true sales proceeds which could be generated if the portfolio were liquidated as of the date of the report.

- **Market Yield -** Yield to maturity (sometimes called "market yield" or simply "yield") is the rate of return if a security is held to maturity based on its current market price.

- **Master Limited Partnerships (MLPs) -** is a publicly traded limited partnership. Shares of ownership are referred to as units. MLPs generally operate in the natural resource, financial services, and real estate industries. Unlike a corporation, a master limited partnership is considered to be the aggregate of its partners rather than a separate entity. However, the most distinguishing characteristic of MLPs is that they combine the tax advantages of a partnership with the liquidity of a publicly traded stock.

- **Money Markets -** The money market is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames.
- **Mortgage-Backed Securities (MBS) -** Securities backed by principal and interest payments from a pool of residential mortgages; includes collateralized mortgage obligations (CMOs).
- **MORTGAGE RELATED SECURITIES**
  Special purpose trusts and corporate entities secured by residential or commercial real estate.

  a. Full Faith and Credit
  All pass-through securities guaranteed by the Government National Mortgage Association (GNMA) and certain other agencies that are backed by the full faith and credit of the United States.

  b. U.S. Agency Backed
  Mortgage related securities issued either as pass-throughs or as collateralized mortgage obligations (CMOs) of a U.S. government agency that are not backed by the full faith and credit of the United States.

  c. Non-U.S. Agency Backed ("Private label")
  Non-U.S. agency mortgage related securities backed by residential or commercial mortgages. Without a GSE guarantee, greater credit risk is usually assumed by the buyer. These usually have higher yields than agency MBS in order to compensate for this and other risks.
-

- **Mutual Funds -** An investment vehicle that enables individual investors to pool their money together and benefit from key advantages not normally available to smaller investors. These include: professional day-to-day investment management, greater diversification, easy access to global financial markets and 'wholesale' discounts and interest rates.

- **Par value -** Stated value or face value of the fixed income security. The stated amount the issuer must repay when the security reaches maturity.

    - **Passive Management (also called passive investing) –** is a financial strategy in which an investor (or a fund manager) invests in accordance with a pre-determined strategy that doesn't entail any forecasting (e.g., any use of market timing or stock picking would not qualify as passive management). The idea is to minimize investing fees and to avoid the adverse consequences of failing to correctly anticipate the future. The most popular method is to mimic the performance of an externally specified index. Retail investors typically do this by buying one or more 'index funds'. By tracking an index, an investment portfolio typically gets good diversification, low turnover (good for keeping down internal transaction costs), and extremely low management fees. With low management fees, an investor in such a fund would have higher returns than a similar fund with similar investments but higher management fees and/or turnover/transaction costs. Passive management is most common on the equity market, where index funds track a stock market index, but it is becoming more common in other investment types, including bonds, commodities and hedge funds. Today, there is a plethora of market indices in the world, and thousands of different index funds tracking many of them.
    -

PREFERRED STOCKS

a. Redeemable / Limited Life (Under NAIC Guidelines)
Preferred stocks with an explicit limited life, for example: mandatory sinking fund preferred stocks, preferred stocks redeemable at the option of the investor, and preferred stocks with a non-cancelable call provisions are included in this section. Currently, NAIC guidelines allow these preferred to be carried at amortized cost.

b. Other Limited Life
Preferred stocks with an expected, but not explicit limited life. Securities included here contain a mechanism designed to limit price volatility (exclusive of creditworthiness); for example, preferred stocks redeemable at the option of the issuer such as fixed rate adjustable preferred stocks (FRAPS). Currently, NAIC guidelines require these preferred to be carried at market value with no amortization.

Premium - The excess of the amount paid for a fixed income security, excluding purchased interest, over its par or face value.

- **Prepayments** – The repayment of mortgage principal prior to scheduled amortization, which shortens the average life of the security. Prepayments are influenced by many factors, including refinancing and housing turnover. Returns of premium priced (above par) securities may be reduced when prepayments increase. A decline in market interest rates can increase

prepayment activity via increased refinancing, shortening the duration of the security. This can reduce portfolio returns as the mortgage prepayments must be reinvested at lower yields. Conversely, a rise in interest rates may slow prepayments from expected levels, reducing the cash flows available to invest at higher yields. The slowdown in principal payments will normally extend the duration of the security.

- **Present Value** - The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.

- **Redemption** - The return of an investor's principal in a fixed income security, such as a preferred stock or bond.

- **Residential Mortgage-Backed Security (RMBS)** – Security backed by an underlying pool of residential mortgages.

- **Revenue Bonds** – Securities issued for either project or enterprise financing and supported by the revenues from that project. Issues may also be supported by dedicated taxes. Common types include municipal utilities, airport, toll roads, hospital, college, gas tax. These issues may be both taxable and non-taxable.

- **RISK ASSETS**

  International and U.S. publicly traded common stocks, including real estate investment trusts, equity mutual funds and private placement common/commingled trusts. Also included are perpetual preferred stocks. Finally, this category includes convertible bonds and convertible preferred stocks with no quality limitations.

  Exposure to common stocks is typically measured at market price as a percent of the most recent year-end surplus. Any limit indicated in this investment policy statement has been established by translating this into a dollar amount.

  U.S. High Yield fixed income mutual funds/ETFs.

  International Fixed Income mutual funds/ETFs; including both sovereign and corporate debt issued in both USD and Local Currency.

- **Risk Free Security -** An asset which has a certain future return. Treasuries (especially T-bills) are considered to be risk-free because they are backed by the U.S. government.

- **Settlement Date** - The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

- **Short Term -** Money market instruments generally with less than 180 days to maturity from purchase, Money Market Funds.

SHORT-TERM INVESTMENTS

Short-term investments consist of cash and investment grade securities with an original maturity at purchase of no more than one year.

a. U.S. Government Securities

U.S. Government securities backed by the full faith and credit of the United States or its agencies.

b. Money Market Funds

Includes bank sweep vehicles and other funds qualifying for Exempt or Class One treatment under NAIC rules.

c. Other Short-Term

Includes, but not limited to: repurchase agreements, commercial paper, bankers' acceptances, and certificates of deposit.

- **Spread** – Normally used to describe the incremental yield of a security over a comparable maturity or reference Treasury, in basis points. Calculations vary by asset class.

- **Subordinate Debt -** ranked behind that held by secured lenders in terms of the order in which the debt is repaid. "Subordinate" financing implies that the debt ranks behind the first secured lender, and means that the secured lenders will be paid back before subordinate debt holders.

- **Taxable Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is** subject to regular income tax. Barclays considers most taxable municipals as "Local Authority" issues in their Government index.

- **Tax-Exempt Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is not** subject to regular income tax.
  The main difference between income return and total return is that income returns are based on book value and income earned (which includes changes in book value as part of the calculation), while total return is based on market value and cash flow received.

- **Total Return** - As opposed to income return, which is an accounting based calculation, **total return** is an economic-based calculation. For securities with no interim cash flows, total return is the difference between the ending and beginning market value.

- **Trade Date -** The month, day and year that an order is executed in the market. The trade date is when an order to purchase, sell or otherwise acquire a security is performed.

- **Tranche -** Tranches are pieces, portions or slices of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards

and maturities. For example, a collateralized mortgage obligation CMO offering a partitioned mortgage-backed securities MBS portfolio might have mortgage tranches with one-year, two-year, five-year and 20-year maturities, all with varying degrees of risk and returns.

- **Treasury -** Securities issued by the U.S. Treasury.

- **Treasury Inflation Protected Securities (TIPS) -** U.S. Treasury notes and bonds that have a fixed coupon rate and mature on a fixed date. However, the coupon payments and underlying principle are automatically increased to compensate for inflation as measured by the Consumer Price Index (CPI).

- **Value Stock (also called value investing)** – is an investment paradigm that derives from the ideas on investment that Ben Graham and David Dodd began teaching at Columbia Business School in 1928 and subsequently developed in their 1934 text Security Analysis. Although value investing has taken many forms since its inception, it generally involves buying securities whose shares appear under-priced by some form of fundamental analysis. As examples, such securities may be stock in public companies that trade at discounts to book value or tangible book value, have high dividend yields, have low price-to-earnings multiples or have low price-to-book ratios.
    - High-profile proponents of value investing, including Berkshire Hathaway chairman Warren Buffett, have argued that the essence of value investing is buying stocks at less than their intrinsic value. The discount of the market price to the intrinsic value is what Benjamin Graham called the "margin of safety". The intrinsic value is the discounted value of all future distributions. However, the future distributions and the appropriate discount rate can only be assumptions. Graham never recommended using future numbers, only past ones). For the last 25 years, Warren Buffett has taken the value investing concept even further with a focus on "finding an outstanding company at a sensible price" rather than generic companies at a bargain price.

- **Weighted average life** – The weighted average time to principal repayment in years, weighted by the amount of each principal payment.
    - While many assumptions built into the duration calculation, for small movements in interest rates, duration is a fairly good proxy of price sensitivity.

- **Yankee Bond** – A bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Due to the stringent regulations and standards that must be adhered to, it may take up to 14 weeks (or 3.5 months) for a Yankee bond to be offered to the public. Part of the process involves having debt-rating agencies evaluate the credit worthiness of the Yankee bond's underlying issuer. Foreign issuers tend to prefer issuing Yankee bonds when U.S. interest rates are low because this means lower interest payments for the foreign issuer.

- **Yield Curve Slope** – The spread between two points on the yield curve for similar assets. Most often used in discussing the Treasury curve but is often used for comparing yields of comparable municipal and corporate securities across maturities.

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