

Shadow Run Townhomes Homeowners Association

POLICY No. 007-2020: INVESTMENT OF RESERVE FUNDS

Adopted prior to December 31, 2007; last amended 3/31/2021.

The following Policy has been adopted by the Shadow Run Townhomes Homeowners Association ("the Association"), pursuant to C.R.S. §38-33.3-209.5, C.R.S. §38-33.3-303, 7-128-401, the Association Documents, and the ACT at a regular meeting of the Board of Directors ("the Board"). Additional policies, procedures, rules and regulations may exist separately.

PURPOSE: This Policy defines investment objectives and procedures to protect and ensure the safety of the assets and capital improvements of the Association and those volunteers who participate in the investment process. This Policy also provides guidance to those who offer investment services to the Association, including brokers/dealers, banks, consultants, savings institutions, and custodians. This Policy does not set forth: (1) the minimum reserve fund balance required of the Association; (2) any mandate for an annual reserve fund study; or (3) the tax consequences of the investment options contained herein. The reserve fund is for the exclusive benefit of the Association to meet unforeseen expenditures or to purchase any additional equipment or services or for future capital repairs, replacements and improvements to the Common Elements of the Association, all as determined by the Board of Directors.

NOW, THEREFORE, IT IS RESOLVED that the Association does hereby adopt the following Policy governing the investment of the Association's reserve funds:

- A. Standards of Conduct.** With regard to the investment of reserve funds of the Association, the officers and members of the Board shall be subject to the standards set forth in C.R.S. §7-128-401, except that, as used in that statute:
 1. **Corporation.** "Corporation" or "nonprofit corporation" means the Association
 2. **Director.** "Director" means a Member of the Association's Board
 3. **Officer.** "Officer" means any person designated as an officer of the Association and any person to whom the Board delegates responsibilities under this article, including, without limitation, a managing agent, attorney, or accountant employed by the Board
- B. Investment Goals.** The Board of Directors shall use its best judgment to invest the funds held in reserve fund account(s) to meet the following goals: promote and assure the preservation of principle, structure maturities to ensure that assets will be liquid for anticipated needs, achieve long-term investment performance appropriate for the asset classes selected.
- C. Safety of Funds:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital, with the objective of mitigating credit risk and interest rate risk.
 1. **Credit Risk.** The Association will minimize credit risk, the risk of loss due to the failure of the financial institution, by: Limiting investments to the safest types of investments as provided for herein
 2. Pre-qualifying the financial institutions, brokers/dealers, and advisors with which the Association does business; and
 3. Subject to the limitations herein, diversifying the investment portfolio so that potential losses on individual investments will be minimized.
 4. **Interest Rate Risk.** The Association will minimize the risk of the market value of investments in the portfolio due to changes in general interest rates by:

- a. Structuring the investment portfolio so that investments mature sufficiently close to cash requirements for ongoing operations, thereby minimizing the potential need to sell investments prior to maturity
 - b. Investing all funds primarily in short- to intermediate-term investments and approved money market mutual funds
5. **Liquidity of Funds.** The investment portfolio shall remain sufficiently liquid to meet all planned reserve fund expenditures for the following fiscal year. To ensure that adequate reserve funds are available to pay the Association's reserve expenditures, annual reserve fund investments shall reasonably match the planned reserve fund expenditures for the following fiscal year.
6. **Types of Investments.** The reserve fund portfolio shall consist largely of Money Market Accounts and/or Certificates of Deposit.
7. **Yield.** Subject to the restrictions on the types of investments, the Association's portfolio shall earn a competitive market rate of return on available funds throughout budgetary and economic cycles. In meeting this objective, the Association, through the Board, will take into account the Association's investment risk, constraints, and cash flow needs.
8. **Delegation of Authority.** Responsibility for conducting investment activities for the Association resides with the Board. The President and the Secretary of the Board will be considered an authorized person to assist the Treasurer in performing transactions concerning investment management, cash management, or treasury functions upon prior approval of the Board of Directors. Persons authorized to transact investment business for the Association are limited to these three officers and only when prior approval for any investment transaction has been approved by a majority of the Board. The Secretary will provide a copy of this investment Policy to all of the Association's investment service providers. Association Members will receive a copy of this investment Policy from the Secretary upon request. The Treasurer may engage the support services of outside professionals, subject to the availability of budgeted funds and prior approval from the Board. The Board shall provide a copy of this Policy to the newly elected Treasurer and Secretary at the assumption of office.

D. Limitation on Investments.

- 1. The following investments meet the Board of Directors investment goals:
 - a. Interest bearing liquid bank accounts;
 - b. Money market mutual funds investing only in U.S. Treasury and Treasury-backed securities
 - c. Certificates of deposit in FDIC-insured financial institutions, with no more than \$100,000 in any such institution unless additional deposit insurance is provided by the bank, and purchased with the intent to hold the maturity. Such certificates will not be purchased on the secondary market and hence discount or premium (which is not insured by the FDIC) will not arise; and
 - d. U.S. Treasury bills, notes or bond purchased with the intent to hold to maturity
- 2. **Ineligible Investments and Transactions.** The Association Reserve funds shall NOT be invested in the following asset class(s):
 - a. Individual stocks, equity mutual funds, equity securities (domestic or foreign)
 - b. Mutual funds consisting of bonds or mortgages and or derivatives
 - c. Options on equity, debt or commodities
 - d. Commodity futures contracts, precious metals, foreign currencies or other similar investments
 - e. Annuities

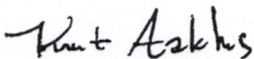
- f. Floating rate securities or floating rate certificates of deposit; and Investments in a single institution in excess of FDIC insurance limits.
- E. **Selection of Banks.** Banks and savings institution shall be approved by written resolution by the Board to provide depository and other banking services for the Association. To be eligible for authorization, a bank must be domiciled in the United States and have physical facilities for doing business in the State of Colorado, a member of the FDIC and must meet the minimum credit criteria of credit analysis provided by commercially available bank rating services. Banks failing to meet the minimum criteria, or, in the judgment of the Treasurer and the Board, no longer offering adequate safety to the Association funds, shall be unauthorized to provide depository and other banking services for the Association.
- F. **Reporting.** On no less than a quarterly basis, an investment report shall be prepared and submitted by the Treasurer or an outside advisor, who will provide such report to the Board in a timely manner, listing the reserve fund investments held by the Association and the current market valuation of the investments. The report shall include a summary of investment earnings during the prior fiscal quarter. The Association Members shall have access to the list of Association reserve fund portfolio holdings.
- G. **Policy Revisions.** The Board shall review Policy periodically and may amend the Policy as conditions warrant. The Treasurer may recommend amendments to this Policy as necessary.
- H. **Segregation of Reserve Funds.** Any reserve funds shall be held in a segregated account(s) and shall not be commingled with the general operation funds of the Association. All investments will be purchased in the name of the Association.
- I. **General Investment Strategies.** Wherever possible, the Board shall follow the following strategies for investment:
1. **Liquid Reserves.** At least once per year, the Board shall review the Association's reserve schedule for the upcoming budget period and shall evaluate and place in liquid accounts an amount equal to the expected reserve expenditures plus a twenty percent (20%) cushion for unexpected expenditures (the "Liquid Reserves")
 2. **Non-Liquid Reserves.** Except for the Liquid Reserves, it is expected that the remainder of the reserve funds will be invested in non-liquid assets, as follows:
 - a) **Laddering strategy.** Individual securities should be selected that have maturities of one (1) to five (5) years. The maturities should be structured so that an approximately equal proportion comes due at regular intervals. As funds mature, they should be reinvested in securities at the long end of the maturity range. The Board may reduce the longest maturity as market conditions warrant. (For example, during periods of very low interest rates, the Board may wish to purchase securities with maturities shorter than five (5) years.) The expectation of this laddering strategy is that the assets will benefit from longer-term rates, which are commonly higher than short-term rates, while maintaining readily available funds and cash flow.
 - b) **New funds.** As the Liquid Reserves grow (from earnings as well as from new reserve fund contributions), additional amounts will become investable into the Non-Liquid Reserves. Newly investable funds are defined as those in excess of the Liquid Reserves. The newly investable funds should be combined with proceeds from laddered securities when they mature, and invested to maintain the basic laddered structure.
- J. **Independent Professional Investments Assistance.** The Board of Directors may hire a qualified investment advisor to assist it in formulating an investment strategy for Association reserve funds.
- K. **Review and Control.**

1. The signatures of at least two Directors must be obtained for withdrawals or transfers of reserve assets;
 2. Banks and investment firms must provide timely and accurate monthly statements to the Board of Directors or the management company, which will reconcile all statements within 30 days of receipt;
 3. At least quarterly during the fiscal year, the Board of Directors shall review its investment of any reserve funds to ensure that the goals outlined in this policy are being met.
- L. Enforcement.** Upon certification, the Board shall give notice of the adoption of the Policy to all Owners of the Association. Notice to the Owners shall be by any reasonable method as determined by the Board. Any Owner's failure, to notice or gain access to the new Policy, shall not be a defense against any attempt by the Association to enforce the new Policy, levy fines, and recover costs and/or attorneys' fees as a result of a violation of the new Policy.
- M. Definitions.** As used in this Policy, capitalized terms shall have the same meanings as defined in the Declarations.
- N. Conflicts.** The Policies adopted by the Association are supplemental to the Project Documents and the ACT. In the event of a conflict between the provisions of this Policy and the Declaration, the Declaration shall control. In the event of a conflict between this Policy and the ACT, the ACT shall control.
- O. Severability.** The provisions of this Policy shall be independent and severable. The invalidity of any one or more of the provisions of this policy by judgment or court order or decree shall in no way affect the validity or enforceability of any of the other provisions, which shall remain in full force and effect.

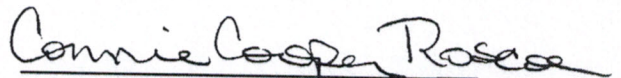
PRESIDENT'S CERTIFICATION:

The undersigned, being the President of Shadow Run Townhomes Homeowners Association, a Colorado non-profit corporation, certifies that the foregoing Resolution, amending and codifying Policy III, was introduced as Policy No. 006-2020 for first reading at a duly called and held meeting of the Board on May 6, 2020. Policy No. 006-2020 was presented for a second, final reading and adopted at a duly called and held meeting of the Board on March 31, 2021. Policy No. 006-2020 is hereby certified as adopted by the Board on March 31, 2021 and in witness thereof, the undersigned has subscribed their names and titles in performance of their duties as officers of:

Shadow Run Townhomes Homeowners Association, Inc., a Colorado non-profit corporation.



Knut Aakhus, President



Connie Cooper, Secretary