

THE HAMLET AT CASTLE PINES NORTH  
HOMEOWNERS ASSOCIATION, INC.

**Reserve and Operating Fund Investment Policy**

Adopted December 6, 2005  
Revised December 12, 2006

The following policy has been adopted by The Hamlet at Castle Pines North Homeowners Association, Inc. ("Association") pursuant to the provisions of C.R.S. 38-33.3-209.5, at a regular meeting of the Board of Directors.

Purpose: To protect and ensure the safety of the reserve and operating funds of the Association, to the extent there are any, and those volunteers who participate in the investment process and to further provide guidance to those who offer investment services to the Association, including brokers/dealers, banks, consultants, savings institutions, and custodians.

The following investment policy addresses the methods, procedures and practices which must be exercised to provide for effective and judicious fiscal investment management of the Association's reserve and operating funds. This policy does not set forth: (1) the minimum reserve fund balance required of the Association pursuant to its governing documents; (2) any mandate for an annual reserve fund study; or (3) the tax consequences of the investment options contained herein.

NOW, THEREFORE, IT IS RESOLVED that the Association does hereby adopt the following policies and procedures for the investment of the Association's reserve and operating funds:

**I. Investment Objectives**

All funds shall be deposited and invested by the Association in accordance with Colorado State Statutes and resolutions enacted by the Association's Board of Directors in a manner to accomplish the following objectives:

- A. 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:
    - a. Limiting investments to the safest types of investments as provided for herein;
    - b. Pre-qualifying the financial institutions, brokers/dealers, and advisors with which the Association does business; and
    - c. Subject to the limitations herein, diversifying the investment portfolio so that potential will be minimized.
  - 2. **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; and
- b. Investing all funds primarily in short- to intermediate-term investments, and approved money market mutual funds.

- B. Liquidity of Funds: The investment portfolio shall remain sufficiently liquid to meet all planned expenditures for the following fiscal year. To ensure that adequate reserve and operating funds are available to pay the Association's expenditures, annual fund investments shall reasonably match the planned expenditures for the following fiscal year.
- C. Types of Investments: The reserve fund portfolio shall consist largely of Money Market Accounts and/or Certificates of Deposit.
- D. Yield: 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 of Directors, will take into account the Association's investment risk, constraints, and cash flow needs. The 90-day Treasury Bill shall serve as the benchmark for comparison and analysis of the Association's fund investment yield.

## **II. Delegation of Authority**

The officers and members of the Board of Directors shall make investment decisions in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the Director or officer reasonably believes to be in the best interests of the Association in accordance with the Colorado Revised Nonprofit Corporation Act.

Responsibility for conducting investment transactions for the Association resides with the Treasurer. The President of the Board of Directors, or any other person authorized by the Board, will be considered an authorized person to assist the Treasurer in performing investment management, cash management, or treasury functions. The Treasurer will provide a copy of this investment policy to all of the Association's investment service providers.

The Treasurer may engage the support services of outside professionals, subject to the availability of budgeted funds and approval from the Board of Directors. Such services may include engagement of financial advisors in conjunction with debt issuance, cash management, portfolio management support, special legal representation, and third party custodial services.

The Board of Directors, through external auditors, will periodically review the compliance of the investment management practices with this reserve and operating fund investment policy. Further, the Board of Directors shall provide a copy of this policy to the newly elected Treasurer at the assumption of office.

## **III. Ineligible Investments and Transactions**

The Association shall not invest in the following asset class(es):

- A. Individual stocks;
- B. Equity mutual funds domestic or foreign;
- C. Mutual funds consisting of bonds or mortgages and or derivatives;
- D. Options on equity, debt or commodities;
- E. Floating rate securities or floating rate certificates of deposit; and
- F. Investment in a single institution in excess of FDIC insurance limits.

**IV. Selection of Banks as Depositories and Providers of General Banking Services**

Banks and savings institutions shall be approved by written resolution by the Board of Directors 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, and be a member of the FDIC Banks failing to meet the minimum criteria, or, in the judgment of the Treasurer or Board of Directors, no longer offering adequate safety to the Association funds, shall not be approved.

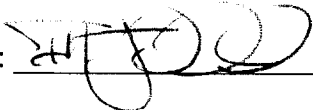
**V. Reporting**

On an annual basis, an investment report may be prepared and submitted by the Treasurer or an outside advisor, who will provide such report to the Board of Directors in a timely manner, listing the reserve and operating 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 year. The Association members shall have access to the list of Association reserve and operating fund portfolio holdings.

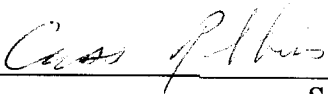
**VI. Policy Revisions**

The Board of Directors shall review this reserve and operating fund investment policy periodically and may amend the policy as conditions warrant. The Treasurer may recommend amendments to this policy as necessary.


The Hamlet at Castle Pines North  
Homeowners Association, Inc.

By:  President

Attest

  
Secretary

This Policy was adopted by the Board of Directors on the 6th day of December 2005, effective the 1st day of January, 2006, revised by the Board of Directors on the 12<sup>th</sup> day of December 2006, and is attested to by the Secretary of The Hamlet at Castle Pines North Homeowners Association, Inc.

  
Secretary