

**SOMERSET ESTATES HOMEOWNERS ASSOCIATION, INC.**  
**RESERVE FUND INVESTMENT POLICY**

Adopted 2/27/2019

The following policy has been adopted by Somerset Estates Homeowners Association, Inc. ("Association") pursuant to the Colorado Common Interest Ownership Act ("Act"), including C.R.S. 38-33.3-209.5, as amended, at a regular meeting of the Executive Board ("Board").

Purpose: To protect and ensure the safety of the assets and capital improvements of the Association 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 that must be exercised to ensure effective and judicious fiscal investment management of the Association's reserve funds. This policy does not set forth: (1) the minimum reserve fund balance required of the Association; (2) any mandate for any periodic 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 policy for the investment of the Association's reserve funds:

1. Investment Objectives. All funds that are held for capital expenditures as a part of the reserve fund shall be deposited and invested by the Association in accordance with Colorado Revised Statutes and resolutions enacted by the Board 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 reasonably mitigating risk.
- B. Liquidity of Funds: The investment portfolio shall remain sufficiently liquid to meet all planned reserve fund expenditures according to the timing of expected expenditures.
- C. Types of Investments: The reserve fund portfolio shall consist largely of money market accounts, certificates of deposit, and other securities backed by the U.S. Government. Other types of Investments not prohibited by paragraph 5 may be approved by the Board.
- D. 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 through 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.

2. 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 reasonably safe investments as provided for herein;
- (b) Subject to the limitations herein, reasonably diversifying the investment portfolio.

3. 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 and/or capital expenditures, thereby minimizing the potential need to sell investments prior to maturity; and
- (b) Investing all funds primarily in short- to intermediate-term investments.

4. Delegation of Authority. Responsibility for conducting investment transactions for the Association

resides with the Treasurer. The President of the Board will be considered an authorized person to assist the Treasurer in performing investment management, cash management, or treasury functions. Persons authorized to transact investment business for the Association are limited to these two officers. The Treasurer will provide a copy of this investment policy to any Member upon request. The Treasurer may engage the support services of outside professionals, subject to the availability of budgeted funds and approval from the Board. The Board shall provide a copy of this policy to the newly elected Treasurer at the assumption of office.

5. Ineligible Investments and Transactions. The Association shall not invest in the following asset classes:

- (a) Individual stocks;
- (b) Equity mutual funds, domestic or foreign;
- (c) Mutual funds consisting of mortgages and/or derivatives;
- (d) Options on equity, debt or commodities;
- (e) Investment in a single institution in excess of FDIC insurance limits.

6. Selection of Banks as Depositories and Providers of General Banking Services. Banks and savings institutions shall be approved by written resolution of 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, be 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 or Board, no longer offer adequate safety to the Association funds, shall be unauthorized to provide depository and other banking services for the Association.

7. Reporting. An annual 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 valuation of the investments. The report shall include a summary of investment earnings during the prior fiscal year. The Board shall make available to requesting Members an itemized listing as to the amount, type and rate of return, of the instruments, funds, and accounts in which Association funds are invested or deposited.

8. Policy Revisions. The Board shall review this reserve fund investment policy periodically and may amend the policy as conditions warrant. The Treasurer may recommend amendments to this policy as necessary.

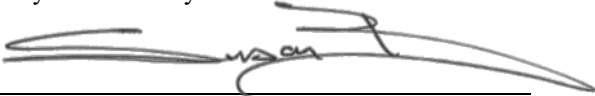
9. Miscellaneous. Failure by the Association to enforce any provision of this policy shall in no event be deemed to be a waiver of the right to do so thereafter.

10. Severability. If a provision of this policy is or becomes illegal, invalid or unenforceable, that shall not affect the validity or enforceability of any other provisions of this policy.

Somerset Estates Homeowners Association, Inc.

By:   
Marc Arnold, President

This Reserve Fund Investment Policy was adopted by the Executive Board on the 27<sup>th</sup> day of February, 2019, effective the 27<sup>th</sup> day of February, 2019 and is attested to by the Secretary of the Somerset Estates Homeowners Association, Inc.

By:   
Susan Reilly, Secretary