

HIGH DESERT RESIDENTIAL OWNERS ASSOCIATION, INC.
STATEMENT OF INVESTMENT POLICY REGARDING
OPERATING AND RESERVE ACCOUNT FUNDS
Adopted March 17, 2016
Amended September 20, 2016

Authority

This policy is adopted in accordance with Article 5(a)(ii) of the High Desert Residential Owners Association (HDROA) Articles of Incorporation, Article III, Section C, Paragraphs 3.16, 3.17(c)(e)(h), and 3.20 of the HDROA By-Laws, Adopted 22 February 1994, as amended, which set forth the general powers and duties of HDROA and its Board of Directors (BOD) with respect to the administration of the HDROA affairs, and Article IV, Paragraph 4.1, Article V, Paragraph 5.1(e), and Article X, Paragraph 10.5 of the HDROA Declaration of Covenants.

Policy

The HDROA shall invest all operating and reserve account funds to provide the highest investment return with maximum security while simultaneously meeting operating cash flow requirements and reserve account cash flow requirements for funding all reserve account projects. Any investments must comply with all federal, state, and local statutes governing the investment of such funds by non-profit corporations.

Scope

The HDROA is responsible for preserving and maintaining HDROA common area properties. It must maintain:

- Operating accounts to provide current funding for the affairs of HDROA
- Reserve accounts to provide funding for future major repairs and replacements of common area properties.

This investment policy applies to all funds in the HDROA Master and Village Operating and Reserve Accounts and the AMAFCA Arroyo Reserve Account.

Prudence Guidelines

The BOD must perform their duties in good faith using a manner they believe to be in the best interest of HDROA. They shall use the care an ordinarily prudent person would use under similar circumstances in a like position. The standard of prudence used by the BOD or their designated agent shall be that of a prudent man. Reserve account funds shall be invested with the judgment and care under circumstances then prevailing which persons of ordinary prudence, discretion, and intelligence would exercise in the management of their own affairs not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived. These standards of prudence are the standard for responsibility for application in the management of the HDROA reserve account funds.

Objectives

Following are the primary objectives in order of priority of the HDROA investment activities:

- Safety of principal is the foremost objective of the investment program. Investments of the HDROA shall be undertaken in a manner that seeks to ensure the preservation of capital in the accounts.
- The investment portfolio shall remain sufficiently liquid to allow the HDROA to meet all operating requirements as reasonably anticipated.
- The investment portfolio shall obtain a rate of return throughout budgetary and economic cycles commensurate with the HDROA investment risk constraints and its cash flow requirements.

Delegation of Authority

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the BOD. Based on suggestions from the HDROA accountant, its CPA, and its treasurer, the treasurer shall establish and maintain a system of internal controls to regulate the activities of authorized personnel.

Ethics and Conflicts of Interest

Members of the BOD and all others involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. Members of the BOD shall disclose to the BOD any ownership interest in financial institutions that conduct business with the Association.

Internal Controls

An annual process of independent review by an external auditor of the HDROA financial statements shall include the investment portfolio. The auditor's report shall include a certification of compliance with this investment policy.

Approved Financial Institutions

The BOD treasurer shall maintain and submit to the BOD for approval a listing of financial institutions approved by the BOD for investment and depository purposes. Financial institutions on this list shall follow the prudent man rule.

List of Authorized Investments

Reserve accounts and funds to meet AMAFCA mandated Arroyo Reserve Account funds shall be deposited in savings accounts, money market accounts, and checking accounts or invested in other BOD approved instruments at approved financial institutions. Operating account funds shall be invested in approved instruments at approved institutions.

Safekeeping and Custody

Securities purchased may be held by the issuing financial institution or by the management company for HDROA.

Diversification

All reserve account fund monies not required for current fiscal year expenses may be invested in BOD approved instruments at approved financial institutions. Surplus monies may added to reserve fund accounts, used for capital improvement projects such as landscape projects, or used to fund other necessary expenditures.

HDROA may also execute a sweep repurchase agreement for the HDROA operating account. Such agreement provides for the sale of securities with a simultaneous agreement to buy back the same securities at a stated price on the specified date of the next business day. The securities purchased under such agreement must be secured by the financial institution pledging a portion of their security portfolio to HDROA. The securities purchased under such terms shall be bank investment grade securities of the United States Government or its agencies. Following are the specific securities permitted under the terms of the HDROA investment policy for a sweep repurchase agreement:

- U.S. Treasury securities or securities guaranteed by the U.S. Government
- Federal Agency securities including but not limited to
 - Federal Farm Credit Banks (FFCB)
 - Federal Home Loan Banks (FHLB)
 - Federal National Mortgage Association (FNMA, FHLMC)
 - Government National Mortgage Association (GNMA)
 - Student Loan Marketing Association (SLMA)
 - Small Business Administration (SBA)
- Mortgage-Backed Securities
 - Pass-through securities issued by GNMA, FNMA or FHLMC
 - Corporate bonds issued by companies headquartered in the United States of America with ratings of A through AAA

Maximum Maturities

Maturity dates not to exceed three years, shall be laddered to provide optimum interest rates while ensuring that funds to meet reserve account requirements are available at the beginning of each fiscal year in accordance with each reserve study document.

Performance and Reporting

The BOD treasurer shall provide an investment report to the BOD for approval no less than annually at the end of each fiscal year. At a minimum, this report shall list each investment with its interest rate, maturity, and income received.

Investment Policy Adoption

This HDROA investment policy shall be adopted by resolution of the HDROA BOD. The BOD treasurer shall review all aspects of the investment policy annually. The BOD shall approve any modifications or amendments to the policy.

Adopted by HDROA BOD on March 17, 2016

President, HDROA BOD

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