

Hidden Springs Town Association

Association Policy 1100

Financial Investment Policy

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1. Scope and Purpose Statement

This policy serves as the guideline for management of Hidden Springs Town Association and Hidden Springs Sewer Company (hereafter known as HS) financial assets including: Operational, Reserve and Long-Term Funds as defined in Sections 9, 10, and 11 of this investment policy.

2. Objectives

HS shall adhere to the following five objectives in investing any of the HS financial assets:

- **Safety:** Safety of principal is the foremost objective. Investments shall be made in a manner that seeks to ensure the preservation of principal in the overall portfolio.
- **Legality:** All investments and accompanying transactions shall be in accordance with this investment policy and applicable State and Federal statutes.
- **Liquidity:** The HS investment portfolio shall remain sufficiently liquid to enable HS to meet all reasonably anticipated operational requirements.
- **Return on Investment:** The investment assets shall be designed with the objective of attaining the highest rate of return within the constraints of this policy.
- **Transparency:** To provide HS residents with information regarding the financial assets and investments of the community.

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3. Ethics

HS Council, or assigned agent(s), shall refrain from personal business and investment activities which could conflict or give the appearance of conflict with this policy. If such conflict of interest exists at the time this policy is formalized or arises in the future, the affected individual must excuse themselves from further investment discussion and decisions. Selection of all investment vehicles shall be made in an impartial manner.

4. Prudence

Investments shall be made with judgment and care based upon circumstances existing at the time the investment is made. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person standard requires that the fiduciary exercise discretion in making investments that would be generally acceptable as sound. HS Council, or assigned agent(s), acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal liability provided deviations from expectations are reported to the HS Council in a timely fashion.

5. Responsibility of External Investment Managers

HS may enter into contracts with third party investment advisory firms when their services are deemed to be beneficial to HS. The advisor must comply with this Investment Policy and may have authority to transact investments on behalf of HS. The advisory may only act on a non-discretionary basis if they are hired to provide transactional services. Any external investment manager selection must be approved by the HS Council, and any advisory fees and transactional expenses must be at prevailing market rates.

6. Safekeeping and Internal Controls

All securities and collateral shall be held by a third party custodian designated by HS and evidenced by a written agreement. All investments, contracts, and agreements shall be held in safekeeping with:

- Any Federal Reserve Bank
- Any bank authorized under the laws of the United States or any State to exercise corporate trust powers

All financial assets shall be held in accounts issued in the name of HS and administered by the HS Council, or assigned agent(s). A complete list of all financial investments will be maintained by HS and will include the nature of the investment vehicle, its location, original purchase amount, rate of return, maturity date, and authorized access

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information. All third party statements and reports shall be kept on record at HS Office and made available to HS members.

The HS shall establish a system of internal controls to ensure the integrity of the investment process. All investment transactions shall be supported by written evidence; as an example, a confirmation ticket issued by the broker/dealer. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions by any member of HS.

7. Performance Standards

The investment portfolio shall be managed in accordance with the parameters specified within the Investment Policy. The portfolio will be designed to obtain a market average rate of return within given budgetary and economic cycles, taking into account the HS investment risk constraints and cash flow needs. Portfolio performance will be compared to established benchmarks as determined by the HS Council, or assigned agent(s), at least annually.

8. Reporting

The HS Council, or assigned agent(s), shall develop and provide to the HS Council and homeowners an investment report. This report shall be delivered at least semi-annually or upon request by the HS Council. The investment report shall be prepared in a manner which allows clear understanding of the type of investment, issuer, purchase price, date of maturity, amount of deposit, coupon rate of interest, and any transactional details that occurred within the reported quarter.

9. Operating Funds: Definition and Investment Guidelines

The HS Operating Funds shall be defined as monies required for the ongoing operational expenses as detailed in the annual budget of HS. The total amount held in Operating Funds should be at least three (3) months of operating expenses, but should not exceed twelve (12) months of budgeted operations. An amount equal to 3-6 months of operating expenses shall be considered ideal. These funds should be available immediately for use and invested in interest bearing accounts. The following investments are approved for the Operating Funds:

- **Checking Account:** Monies held in an authorized HS checking account are intended to fund three (3) months of operating expenses but should not exceed six (6) months of budgeted operations. At no time should monies exceed the Federal Deposit Insurance Corporation (FDIC) and/or National Credit Union Association (NCUA) insured limits for each financial institution.

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- **Savings or Time Deposits:** Savings or time accounts in banks, trust companies, and credit unions may be held in amounts not to exceed the FDIC and/or NCUA insured limits for each financial institution.
- **Money Market Accounts:** May be held with next day withdrawal capacity to provide for daily liquidity requirements. The money market funds must be insured by FDIC and/or NCUA and are not to exceed the insured limits for each financial institution.
- **Certificates of Deposit:** FDIC and/or NCUA insured certificates of deposit are not to exceed the insured limits for each financial institution. The maturity period shall not extend beyond six (6) months.

10. Reserve Funds: Definition and Investment Guidelines

The HS Reserve Funds shall be defined as monies in excess of Operating Funds, including capital improvement, replacement, and emergency funds. Monies designated as Reserve Funds shall be an amount equal to at least 2 (two) years of the most recent annual HS budget, or as defined by the most recent reserve studies for HS. Funds in excess of the target 2 years shall be identified as Long-Term Capital Funds. The following investments are approved for the Reserve Funds:

- **Savings or Time Deposits:** Savings or time accounts in banks, trust companies, and credit unions may be held in amounts not to exceed the FDIC and/or NCUA insured limits for each financial institution.
- **Money Market Accounts:** May be held with next day withdrawal capacity to provide for daily liquidity requirements. The money market funds must be insured by FDIC and/or NCUA and are not to exceed the insured limits for each financial institution.
- **Certificates of Deposit:** FDIC and/or NCUA insured certificates of deposit are not to exceed the insured limits for each financial institution.
- **Treasury Obligations:** Treasury bonds, notes, and bills, or other securities which are direct obligations of the United States. Instruments sold and issued by the U.S. Government carry the full faith guarantee of the U.S. Government.

11. Long-Term Capital Funds: Definition and Investment Guidelines

The HS Long-Term Capital Funds shall be funds in excess of the requirements for Operating and Reserve Funds, as defined in this Investment Policy. Funds identified in this category may be used for special projects which enhance the well being of the

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community and/or offer improvements to existing infrastructure which will result in long term economic savings. These funds are also meant to supplement Operating and Reserve Funds on an emergency basis. In addition to the approved investments under existing guidelines, the following investments are approved:

- **Mutual Funds:** Allowable mutual funds must be rated four or five star by Morningstar and must have been in operation for two (2) or more years. No more than 10 percent of the total Long-Term Capital Funds portfolio shall be invested in any single fund. The total allocation to Mutual Funds shall be limited to no more than 75 percent of the Long-Term Capital Funds portfolio.
- **Municipal Securities:** Bonds of state/county/local and other governmental agencies which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency are allowable investments. Tax exempt or taxable bonds qualify as long as they meet the ratings standards. No more than 5 percent of the total Long-Term Capital Funds portfolio shall be invested in any single issuer.
- **U.S. Agency Securities Government Sponsored Enterprises (GSE's):** GSE's have the implied guarantee of the U.S. Government and are privileged to certain access to capital and support of government programs. The issuers are generally considered to have the second highest credit quality in the fixed income markets and provide higher yield than U.S. treasury obligations. Allowable agencies include:
 - Federal Home Loan Bank (FHLB)
 - Federal Farm Credit Bank (FFCB)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Federal National Mortgage Association (FNMA)

In order to insure proper diversification of investments, no more than 25 percent of the Reserve Funds shall be invested in any one GSE issuer.

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Appendix (Illustrative purposes only)

The following example illustrates account holdings for Operating, Reserve, and Long-Term Capital Funds within the guidelines of this Investment Policy.

Assumption: Total HS Annual Operating Budget	\$1,056,000
Assumption: Approximate Monthly Operating Budget	\$ 88,000
Assumption: 2-Year Operating Budget for Reserve Funds	\$2,112,000

Example Operating Funds:

Use a Checking Account with 3-6 months Operating Budget (can change for seasonal fluctuations), a supplemental Savings Account with 3-6 months of Operating Budget and a short-term CD with another 3-6 months of Operating Budget.

Checking:	\$ 264,000
Savings:	\$ 264,000
CD (3 month):	\$ 264,000
<hr/> Total Operating Investments:	<hr/> \$ 792,000

Example Reserve Funds:

Use laddered Savings and CDs.

Money Market:	\$ 150,000
Savings:	\$ 225,000
CD (6 month):	\$ 225,000
CD (1 year):	\$ 225,000
CD (2 year):	\$ 225,000
CD (3 year):	\$ 225,000
CD (4 year):	\$ 225,000
CD (5 year):	\$ 225,000
Treasury Bonds:	\$ 387,000
<hr/> Total Reserve Investments:	<hr/> \$2,112,000

Example Long-Term Capital Funds:

Use Bond & Stock Funds by no-load mutual fund company.

Inflation Protected Bond Fund:	\$ 100,000
Total Market Stock Fund:	\$ 100,000
<hr/> Total Long-Term Capital Investments:	<hr/> \$ 200,000