

Shadow Creek Homeowners Association

RESERVE INVESTMENT POLICY

Association directors have a fiduciary duty to prudently manage reserve assets. Accordingly, the directors have set forth an investment policy to pursue association objectives and goals. The policy is based on historical bond rates, money market instruments, and inflation. The directors expect that over time the strategy will produce results consistent with history and meet the reserve fund's goals.

A. RESERVE STUDIES

1. Periodic Reserve Studies Required.

No less frequently than every five (5) years, the Board shall commission a qualified reserve study analyst to conduct a reserve study (the "Study"). The Study shall:

- a. Identify all common area components that have a useful life of three (3) to twenty (20) years, and that are the Association's responsibility to repair or replace. (The study may, but is not required to, consider components with useful lives exceeding 20 years.)
- b. Assign a reasonable cost of repair or replacement to each component based on current costs for the area.
- c. Assign a reasonable useful life to each component based on local conditions.
- d. Set forth a 20-Year Repair & Replacement Schedule that identifies the years when work will be performed on each component, and which, in calculating the cost of each repair or replacement, takes into account the cost of inflation.
- e. Establish a 20-Year Funding Plan (the "Plan") for a reserve account (the "Account"), which plan takes into consideration the costs of repairs and replacements (adjusted for inflation), contributions from members, interest income on the Account, and taxes owing on interest income. The Plan shall include monthly contributions from members adequate to meet projected costs without the need for special assessments.

2. Annual Updates.

In each year that a Study is not conducted, an update may be commissioned from a qualified reserve study analyst to reflect prevailing conditions, including changes in costs, inflation, interest yield on invested funds, as well as modification, addition, or deletion of components. Any update shall also reflect any unexpected variations from the most recent Study.

3. Funding of Reserve Account.

The Reserve Account shall be funded based upon the findings of the Study and the above philosophy.

4. Permitted Uses of Reserve Funds.

Funds in the Reserve Account are to be used only for the repair and replacement of specific common area and building components. Short-term “loans” from the Reserve Account to the Association’s Operating Account may be made at the discretion of the Board in the event of short-term seasonal cash needs.

B. RESERVE INVESTMENTS

1. Goals and Objectives.

Investments shall be guided by the following goals, listed in decreasing order of importance:

- a. Safety of principal. The long-term goal is safety of the replacement reserves.
- b. Liquidity and accessibility. Funds should be readily available for projected or unexpected expenditures.
- c. Minimal costs. Investments costs (redemption fees, commissions, and other transaction costs) should be minimal.
- d. Professional management. Funds should be invested with professional managers who have good reputations and sound credentials.
- e. Return. Funds should be invested to seek the highest level of return that is consistent with preservation of the purchasing power of the principle and accumulated interest.

2. Investment Strategy.

In order to minimize the amount of monthly homeowner assessments, the Board shall invest the funds in the Reserve Account so as to generate investment income that will accrue to Association. All investments shall be in the name of the Association and shall not be commingled with the Association’s Operating Account.

Funds shall be invested conservatively in secure investments such as U.S. government securities, U.S. government-sponsored entities, FDIC-insured securities, major bank CDs, money-market accounts, etc. Taxable income securities are permitted, as are tax-exempt municipal bonds, provided the issuing entities are high-quality. Diversification of issuers, duration and types of investments will help reduce risk.

At its discretion, the Board may delegate its authority for managing investments to the Association’s Finance Committee.

All members of the Board of Directors shall make decisions concerning reserves and the investment of 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 reasonably believes to be in the best interests of the Association.

3. Review and Control.

The Board shall review the Reserve Account's investments at least annually to ensure that the funds are structured to mature at appropriate times, are receiving competitive yields and are diversified. The Board and its Finance Committee shall make prudent adjustments as needed. Policy considerations concerning changes in investment strategy or security selection shall also be considered.

4. Two Signatures Necessary.

All checks drawn on the Account shall require the signature of no fewer than two authorized members of the Board.