

**CANYON LAKE PROPERTY OWNERS ASSOCIATION
POLICIES AND PROCEDURES**

DIVISION: Accounting

POLICY NO.:

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EFFECTIVE DATE: January 21, 1997

SUPERSEDES: ALL

1st READING: December 17, 1996

2nd READING: January 21, 1997

DATE APPROVED: January 21, 1997

Subject: Investment Policy

1.0 Investment Policy

The Association's Directors recognize their fiduciary responsibility to manage the reserve assets in a prudent manner. Accordingly, the Directors have set forth an investment strategy, security selection criteria, and control and review procedures to pursue the stated objectives and goals.

The policy is based on the historical rates for bonds, money market instruments and inflation. The Directors expect that over longer periods of time, the strategy will produce results consistent with history and therefore meet the reserve fund's specific goals.

2.0 Goals and Objectives

The Association's capital replacement reserve assets shall be invested in an effort to achieve the following prioritized objectives:

- FIRST: Promote and assure the preservation of the reserve fund's principal in any investment.
- SECOND: Structure maturities to assure availability of assets for that time when reserve analyses anticipate needs.
- THIRD: Mitigate the effects of interest rate volatility upon reserve assets.
- FOURTH: Achieve long-term investment performance that exceeds inflation by 1-3% on a net after-tax basis.

3.0 Investment Strategy

Select individual securities which have effective maturities as required by General Operating funds and Reserve funds (Road, Repair and Replacement, and Community Facilities Development). These securities ideally should mature within maximum of five years. Structure these maturities so that approximate proportions come due each year to fit

needs. With new or matured funds, consistently purchase securities at the long end of the maturity range wherever practical. Variations may alter the longest maturity and/or number and length of periods.

The expectation of this "laddering" strategy is that the reserve assets not required short term shall benefit from longer term rates, which are commonly higher than short-term rates, while maintaining ready availability of funds and cash flow. It is further expected that this strategy shall track the middle range of interest rate fluctuation by lessening the impact of any year's particularly high or low rates.

Exception to this strategy may be employed if reserving a portion for a specific expense. Utilize the most recent reserve funding study to match the effective maturities to the dates of such specific expenses.

It is understood that "effective maturity" may be sooner than "stated maturity."

4.0 Selection Criteria

Investments will be selected with an emphasis upon these characteristics; preservation of capital, quality, effective maturity, and net after-tax return.

Cash Equivalents

Money market funds of a bank or major brokerage firm; Bank certificates of deposits; AAA rated municipal; or U.S. Treasury securities with maturities of one year or less.

Fixed Income

Utilize taxable income securities for that portion of Association income which may be taxable within the lower brackets. Invest in tax exempt securities above that level if the after-tax return is favorable.

The taxable portion shall consist of U.S. Treasury securities and insured bank certificates of deposit.

Tax exempt securities will be rated in the AAA quality level by at least one accepted major credit rating agency at the time of purchase.

For securities which have their credit rating lowered after purchase, and/or securities presently in the portfolio that fall below these criteria, an issue by issue review will be conducted. A decision will be made to hold and monitor, or liquidate.

Beyond quality considerations, selection criteria will emphasize securities' maturities before yields. This is recognized as essential to the governing investment strategy.

5.0 **Review and Control**

The Treasurer shall be responsible to review monthly investment reports and discuss them with the Controller.

The Association's Directors will meet at least quarterly, or more often if deemed necessary to review the reserves' investment performance. Policy considerations concerning change of investment strategy or security selection criteria will also require a meeting to gain a majority Board approval.

The performance review will be compared to the goals and objectives of the reserve fund. The Directors recognize the price volatility of fixed income investments and note the strategy to hold such securities to their fixed value at maturity.

Monthly statements of the Association's reserve investments will be delivered to the General Manager and Treasurer. They will provide detailed accounting of current values, income, and transactions. Additional, customized reports may be available upon request.