



## Investment Policy (Policy No. 16)

### Purpose

The purpose of establishing an investment policy for the Snoqualmie Ridge is to create a firm set of guidelines for the Snoqualmie Ridge Board of Directors to follow with respect to any investment decisions relating to the reserve funds or any other ROA funds designated for investment by the Board of Directors.

### Reserve Funds

Reserve funds are designated to pay for current or future expenses of major repairs and replacements of all shared community components, such as community fences, play equipment and benches in parks, etc. The maintenance of a reserve fund minimizes the need or risk for special assessments and enhances resale value of the homes within the community.

### Investment Objectives

Investments shall be undertaken in a manner that seeks to optimize the investment income without any risk of loss to the principal. Safety of principal is the foremost objective regarding the investment of funds, which is in accordance with the primary responsibility of the Board of Directors to maintain, protect and enhance the assets of the Association. This policy applies to the investment of all ROA funds, per the authorization of the Snoqualmie Ridge ROA Board of Directors.

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

1. *Safety of principal.* As mentioned above, the long-term safety of the replacement reserves is of utmost importance. The objective will be to mitigate credit risk and interest rate risk.
  - a. *Credit Risk is the risk of loss occurring due to financial failure of the issuer of a security to meet contractual debt obligations.* The ROA will minimize credit risk by:
    - i. Limiting investments to those specified in the *Authorized and Suitable Investments* section.
    - ii. Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisers with which the ROA will do business in accordance to the *Safekeeping and Custody* section.
    - iii. Diversifying the investment portfolio to minimize the impact of any potential losses from any one individual security issuer or any one security type.
  - b. *Interest Rate Risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.* The ROA will minimize interest rate risk by:
    - i. Structuring the investment portfolio so that securities mature to meet the funding requirements of ongoing operations, thereby precluding the need to sell securities on the open market prior to maturity.
    - ii. Keeping operating funds primarily in liquid investment vehicles.

2. *Liquidity*. Operating funds and funds for anticipated and impending projects or expenses should be readily available. An additional percentage of the overall reserve balance should remain liquid to cover unexpected expenses or cost overruns.
3. *Minimal Costs*. Investment costs (commissions, expense ratios, redemption fees, and other transaction costs) should be minimized and/or considered against the added value for the above-average expenses (e.g. superior service, exceptional performance, added convenience features.)
4. *Professional Management*. Funds should be invested with professional managers who have good reputations and sound credentials.
5. *Return*. Funds should be invested to seek the highest level of return that is consistent with the preservation of principal and income.

### **Standards of Care**

Prudence – the standard of prudence to be used by investment officials shall be the “prudent investor rule” and shall be applied in the context of managing the overall portfolio. The prudent investor rule follows the general standard of prudent investment, which states “This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the portfolio and a part of an overall investment strategy, which should incorporate risk and return objectives reasonable suitable to the portfolio.”

Ethics and Conflicts of Interest – Board members, committee members, or others involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

Delegation of Authority – Responsibility for the operation of the investment program is hereby delegated to the ROA Manager, (until such a time that the Board designates that an investment committee be created to manage the said investment program; this committee, once formed, would be responsible for the provisions listed under Safekeeping and Custody as well as Reporting. Listed below are the requirements and expectations of members of the Investment Committee), who shall act in accordance with established written procedure and internal controls for the operation of the investment program consistent with the investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the ROA Manager. The ROA Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Snoqualmie Ridge ROA Board of Directors shall grant the authority to the ROA Manager to manage the investment program.

### **Safekeeping and Custody**

Internal Controls – The ROA Manager, with input from the ROA’s acting management company, is responsible for establishing and maintaining an internal control structure. The objective is to ensure the assets of the Snoqualmie Ridge ROA are protected from loss, theft or misuse. The internal control structure shall provide reasonable assurance that the objective is met. The concept of reasonable assurance recognizes that; the cost of a control does not exceed the derived benefits; and the valuation of costs and benefits requires estimates and judgments by management.

The internal control structure shall address the following:

- Avoidance of physical delivery securities
- Control of collusion
- Custodial safekeeping
- Development of a wire transfer agreement with the lead bank and third-party custodian
- Board approval for all investment actions

- Dual authorizations of wire transfers or checks issued
- Separation of transaction authority from accounting and record keeping
- Written confirmation of transactions for investments and wire transfers

These policies and internal controls should also be made part of the ROA's outside independent audit protocol and should be reviewed by an outside party annually.

#### **Authorized and Suitable Investments**

- ROA liquid bank accounts
- U.S. Treasury obligations, which carry the full faith and credit guarantee of the United States government
- State bonds
- Money market mutual funds regulated by the Securities and Exchange Commission whose portfolios consist only of dollar-denominated securities.
- Certificates of Deposit in FDIC-insured financial institutions, with no more than \$100,000 deposited in any such institution, unless additional deposit insurance is provided by the bank, and purchased with the intent to hold to maturity. Such certifications will not be purchased on the secondary market and hence a discount or premium will not arise.
- Bank Money Market Funds

#### **Reporting**

The Manager and ROA management company shall prepare a quarterly investment report, which provides an analysis of the current investment portfolio and the individual transactions executed during the quarter. The investment report shall allow the Snoqualmie Ridge ROA Board of Directors to ascertain whether the investment activities during the reporting period have conformed to the investment policy. The report should include the following:

- List of securities held at the end of the reporting period
- Realized and unrealized gains and/or losses resulting from appreciation or depreciation by listing the cost and market value of securities held for over one year that are not intended to be held until maturity
- Listing of investments by maturity date
- Comparison of maturities to the cash flow needs as scheduled in the reserve study

#### **Approval of the Investment Policy**

The investment policy shall be formally approved and adopted by the Snoqualmie Ridge ROA Board and reviewed annually.

#### **Investment Committee**

Requirements of persons serving on the Snoqualmie Ridge Investment Committee:

1. Must be a property owner.
2. Account with the ROA must be in good standing.
3. Must have a working understanding of the major exchanges, financial terminology, and investment types, including but not limited to:
  - a. Equities and convertible securities;
  - b. Investment grade securities including common stocks;
  - c. Convertible preferred and convertible bonds;
  - d. Fixed income instruments, such as U.S. Government, Municipal (taxable) and corporate issuers;

- e. Corporate securities;
  - f. Short term investments.
4. Experience preferred:
    - a. Working with short and long term investments
    - b. Past work with Investment Managers
  5. Must give meticulous attention to avoiding conflicts of interest and maintaining “arm’s length” posture in all transactions.
  6. Must be able to review data quarterly and meet annually.

All members must adhere to all standards and policies set forth in the Snoqualmie Ridge Investment Policy.

Policy #16  
Adopted by the Board of Directors  
Date: July 20, 2006