

**RESOLUTION
OF THE
RED HAWK HOMEOWNERS ASSOCIATION, INC.
REGARDING PROCEDURES
FOR THE
INVESTMENT OF RESERVE FUNDS**

- SUBJECT:** Adoption of a policy regarding the procedures for the investment of Reserve funds
- PURPOSE:** To adopt uniform procedures to be followed for the investment of Reserve funds
- AUTHORITY:** The Declaration, Articles of Incorporation and Bylaws of the Association and Colorado law, including but not limited to C.R.S. §38-33.3-209.5.
- EFFECTIVE DATE:** December 15, 2013
- RECITALS:**
- A. Colorado Revised Statute (“C.R.S.”) 38-33.3-209.5(1)(b)(vi) provides that Colorado Common Interest Communities shall adopt a policy concerning investment of Reserve funds.
 - B. C.R.S. 38-33.3-303(2)(b) provides that Members elected to the Board of Directors by the Unit Owners will be liable for wanton or willful actions or omissions.
 - C. C.R.S. 7-128-401(2)(b) allows the Members of the Board of Directors to rely on information, opinions, reports, or statements if presented by legal counsel, public accountant, or other person as to matters the Board reasonably believes are within such persons expert competence in discharging their duties.
 - D. The Colorado Courts have applied the Business Judgment Rule in their review of actions taken by Boards of Colorado nonprofit corporations.
 - E. Without waiving the statutory duty of care applicable to Members of the Board of Directors elected by Unit Owners, other than the Declarant, the Board will implement elements of the Business Judgment Rule with respect to the investment of the Association’s Reserve funds.
- RESOLUTION:** The Association hereby adopts the following procedures to be followed for the investment of Reserve Funds.

1. **Scope.** In order to properly maintain areas in the community that are the responsibility of the association, to comply with state statutes, to manage reserve funds, and to protect the market value of Owner’s homes and livability in the community, the Board of Directors has determined that it is necessary to have policies and procedures for the investment of Reserve funds.
2. **Purpose of the Reserve Fund.** The purpose of the reserve Fund shall be as set forth in the Association’s governing documents and to responsibly fund and finance the projected repair and replacement of those portions of the community that the Association is responsible for and for such other funding as the Board of Directors may determine to be in the best interests of the community. The portions of the community that the Association is responsible for typically have limited but reasonably predictable useful lives.
3. **Investment of Reserves.** The Board of Directors shall invest funds held in the Reserve Funds accounts to generate revenue that will accrue to the Reserve Funds accounts balance while minimizing risks and maximizing return rates given the following goals, criteria, and policies:

- (a) **Safety of Principal.** Promote and ensure the preservation of the Reserve Fund's principal while minimizing risk. The following should be considered the preferred types of investments:
- (1) Money Market instruments that are FDIC insured to the maximum allowed by law. No more than ten percent (10%) of the Reserve Fund should remain in Money Market instruments unless being aggregated for a known immediate capital expense.
 - (2) Instruments guaranteed by the full faith and credit of the United States Government.
 - (A) U.S. Treasury Bills, Notes, and Bonds
 - (B) U.S. Treasury Inflation Protected Securities (TIPS)
 - (C) Government National Mortgage Corporation (GNMA)
 - (3) Instruments with the implied backing of the United States Government.
 - (A) Federal Home Loan Mortgage Corporation (FHLMC)
 - (B) Federal National Mortgage Association (FNMA)
 - (C) Federal Home Loan Bank (FHLB)
 - (D) Other agencies such as Financing Corporation (FICO), Resolution Funding Corporation (REFCORP), Tennessee Valley Authority (TVA), Federal Farm Credit Bank (FFCB)
 - (4) Corporate bonds to the extent that they are rated "Prime" (i.e., Aaa by Moody's, AAA by S&P, Fitch, or DBRS) or "High Grade" (i.e., A2 or better by Moody's, A or better by S&P, A or better by Fitch, or A or better by DBRS). Bonds rated in any lesser category shall not be considered an appropriate investment for the Association. No more than 25% of the portfolio may be invested in corporate instruments of any type.
- (b) **Liquidity and Accessibility.** Structure maturities to ensure availability of assets for projected and unexpected expenditures. The Board shall use the most recent approved Reserve Study to determine annual capital expenses paying specific attention to the annual net cash flow and level of cash and money market accounts to satisfy those requirements.
- (c) **Minimize Costs.** The Board shall minimize investment costs (i.e., 12b-1 fees, redemption fees, commissions, and other transactional costs) as follows.
- (1) Mutual funds with a front-end load (commission), high 12b-1 fees (in excess of 0.25%), or significant redemption fees (in excess of 0.50%) are not appropriate investments and should be avoided.
 - (2) Zero coupon bonds, which do not have a semi-annual payout, should be avoided unless the target maturity date coincides with a known significant capital expense and the funds can be safely committed for that period.
- (d) **Diversify.** Mitigate the effects of interest rate volatility upon reserve assets through an appropriate allocation among the noted asset types.
- (e) **Return.** Invest funds to seek a reasonable rate of return without undue risks to the principal.

4. **Independent Professional Investment Assistance.** The Board may from time to time hire an *independent* qualified investment counselor to assist in formulation a specific investment strategy. The counselor should be credentialed as a Certified Financial Planner (CFP) with a fiduciary responsibility to the Association. This counselor should be hired on a per hour basis and not on the basis of asset valuation.
5. **Review and Control.** The Board shall review the Reserve Fund investments periodically to ensure that the funds are receiving competitive yields to maturity (YTM) and shall make prudent adjustments as needed. This review shall take place every two (2) years as a minimum.
6. **Procedures.** The Board of Directors shall reasonably investigate the options available for investment of the Reserve funds; emphasis will be placed on the preservation of principal. The Board of Directors shall discuss the results of the investigation and the options for investment that meet the Association's goals for safety and income potential.

In the event the Board lacks experience in the investment options being considered to evaluate the safety and income potential, the Board may consider the opinions of its legal counsel, its public accountant, or other person the Board Members reasonably believe are within that person's expert competence, provided that other person will not directly benefit from the investment or that person is insured against errors and omissions.

Upon the conclusion of the investigation, the discussion, and the opinions of experts (if necessary) the Board of Directors shall vote on how the Reserve funds will be invested or reinvested, each Member of the Board should vote in what they believe is the best interest of the Association and a majority vote of the quorum shall control.

7. **Supplement to Law.** The provisions of this Resolution shall be in addition to and in supplement of the terms and provisions of the Declaration and the laws of the State of Colorado governing the community.
8. **Deviations.** The Board may deviate from the procedures set forth in this Resolution if in its sole discretion such deviation is reasonable under the circumstances.
9. **Amendment.** The policy may be amended from time to time by the Board of Directors.

PRESIDENT'S CERTIFICATION: The Undersigned, being the President of the Association certifies that the foregoing Resolution was adopted by the Board of Directors of the Association, at a duly called and held meeting of the Board of Directors on NOV 21, 2013 and in witness thereof, the undersigned has subscribed his/her name.

RED HAWK HOMEOWNERS ASSOCIATION, INC.,
a Colorado nonprofit corporation

By: Ralph J. Jellerton
President

