



**DC Ranch Association
Board Report 10-7-19 #3**

Subject Matter: Proposed Revisions to Policy 205 – Investments

Background: The Budget and Finance Committee and the Policy Committee propose revisions to this policy. Primarily, the edits focus on reformatting the existing policy to conform to the structure and style of the new policy format. A couple other clarification revisions are proposed as well.

Due to the Association being reclassified as a 501(c)4 corporation, replacement and repair reserves are no longer required to be invested and maintained separately.

The Policy Committee recommends conditional approval of this policy. At that point it can be posted for 30-day member comment in accordance with Policy 102. It can then be brought back to the Board for formal consideration at its December 1, 2019 regularly scheduled meeting.

Recommendation: Conditionally approve the policy for the required 30-day member comment period cited above.

A handwritten signature in black ink, appearing to read 'Darren Shaw', is written over a horizontal line.

Darren Shaw, Executive Director



**DC Ranch Association
Policy 205
Investment Policy**

Policy 209

Date of Adoption:

Effective Date:

Last Revised: 9/24/2019

209.1 Purpose: The purpose of this policy is to define the requirements and guidelines associated with the investment of funds on behalf of DC Ranch Association (the Association DCRA).

209.2 Scope: This policy applies to the investment of all operating and reserve funds of the DCRA.

209.3 Introduction: DC Ranch Association's mission statement is as follows: To serve all DC Ranch Stakeholders through the professional management and protection of the community's fiscal and environmental assets. DC Ranch Association delivers high quality and consistent operations, landscape, maintenance and security services with an emphasis on customer care and open communication that result in sustained property values and exceptional quality of life.

The implementation of this policy will assist the Board of Directors and staff in their efforts to protect the community's fiscal assets by setting requirements for the investment and protection of all Association funds. ~~outlining a procedure for collecting monetary obligations due and payable to the Association by owners.~~

209.4 General Objectives: The primary objectives, in priority order, of investment activities shall be safety, liquidity (including asset-liability management) and yield:

209.4a Safety: Safety of principal is the foremost objective of the Investment Program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is ~~will be~~ to mitigate principal credit risk and interest rate risk.

- *Credit Risk* – ~~The Association DCRA~~ will minimize credit risk-the risk of loss due to the failure of the security issuer or backer. Investments shall be limited to those outlined in Section 209.7a.
- *Interest Rate Risk* – ~~The Association DCRA~~ will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities.
 - Avoiding callable and extendible securities, including mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs).

209.4b Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with budgeted cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary or resale markets (dynamic liquidity), or government money market instruments, in FDIC-insured bank deposits.

Cash needs (amounts and timing) for the operating, ~~repair reserve and capital~~ and reserve funds of ~~the Association DCRA~~ will be forecasted quarterly so that investments may be made to mature on or before such expenditures. The forecast for the ~~repair reserve and capital~~ reserve funds will include a forecast for the next four rolling-quarters, which will be the minimum cash requirement comprised of cash on-hand, investments maturing in the forecast period, and anticipated cash inflow from assessments. The investment advisor is authorized to invest cash balances in excess of the cash required to satisfy the minimum cash requirement, consistent with the Investment Policy.

The ~~Capital Reserve and Repair~~ Reserve funds will be reviewed on an annual basis. Both will be reviewed by the Treasurer, the Budget & Finance Committee and reported to the ~~Association DCRA~~ Board of Directors.

209.4c Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, ~~considering taking into account the~~ investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap that would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

209.5 Standards of Care

209.5a Prudence: The standard of care to be used by the ~~Association's DCRA~~ Executive Director, the Treasurer and the ~~Association's DCRA~~ Budget & Finance Committee shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized personnel acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the ~~Association's DCRA~~ Treasurer and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

209.5b Ethics and Conflicts of Interest: ~~The Association DCRA~~ Board members, Budget & Finance Committee members, DCRA Executive Director, ~~Community Council~~ Director of Financial Operations, and Ranch employees, 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. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of ~~the Association DCRA~~.

209.5c Delegation of Authority: Authority to manage the investment program is granted to the ~~Association DCRA~~ Executive Director and ~~Association DCRA~~ Treasurer, acting together and in consultation with the ~~Community Council~~ Director of Financial Operations. Responsibility for the operation of the investment program is hereby delegated to the ~~Association DCRA~~ Executive Director, who with approval ~~of by~~ the ~~Association DCRA~~ Treasurer and the ~~Association DCRA~~ Budget & Finance Committee, shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this 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 ~~Association DCRA~~ Board of Directors, the Treasurer and the ~~Association DCRA~~ Executive Director.

209.6 Investment Transactions

209.6a Authorized Financial Dealers and Institutions: A list of financial dealers and financial institutions will be maintained ~~of financial dealers and financial institutions who are~~ authorized to conduct investment transactions. An annual review of the financial dealers and institutions will be conducted by the Association DCRA Executive Director and Director of Financial Operations and approved by the Association DCRA Budget & Finance Committee. Any changes to the authorized financial dealers or institutions must be approved by the DCRA Board of Directors, upon recommendation from the Association DCRA Budget & Finance Committee.

209.6b Internal Controls: The Association DCRA Executive Director, in conjunction with the ~~Community Council~~ Director of Financial Operations, is responsible for establishing and maintaining an internal control structure that will be reviewed annually with ~~the Associations DCRA's~~ independent auditor. The internal control structure shall be designed to ensure that the assets of the Association DCRA are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgements by management.

209.7 Suitable and Authorized Investments

209.7a Investment Types: In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the Association DCRA will consider and which shall be authorized for the investments of funds by the Association DCRA.

- *United States Treasury Securities* – The Association DCRA may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- *United States Agency Securities* – ~~The Association DCRA~~ may invest in obligations issued or guaranteed by any agency of the United States Government.
 - U.S. Govt. Agency Coupon and Zero-Coupon Securities. Bullet coupon bonds with no embedded options.
 - U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
 - U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index, restricted to coupons with no interim caps that reset at least quarterly.
- *Collateralized Public Deposits (Certificates of Deposit)* – Instruments issued by financial institutions which state that specified sums have been deposited for

specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by the FDIC or the National Credit Unions Share Insurance Fund.

- *Money Market Mutual Funds and Short-Term Bond Funds* – The Association DCRA may invest in money market mutual funds that are ~~only~~ SEC registered 2(A) 7 funds only. The money market funds and short-term bond funds must own exclusively U.S. Government securities.

209.7b Investment Restriction and Prohibited Transactions. To provide for the safety and liquidity of the Association's DCRA's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes or leverage is prohibited.
- Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a “derivative” instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
- Lending of securities in this portfolio is prohibited.

209.8 Investment Parameters

209.8a Diversification: The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities.

209.8b Maximum Maturities: To the extent possible, the Association DCRA shall attempt to match its investments with anticipated cash flow requirements. All investments shall mature and become payable not more than six (6) years from the date of purchase.

209.8c Pooling of Funds: The Association DCRA will consolidate cash balances from all funds as needed to maximize investment earnings, while maintaining safety of principal. Investment income will be allocated to the various funds based on their respective participation. ~~While required, the Capital Reserve Funds and the Repair Reserve Funds must be invested into separate investment accounts.~~

209.8d External Management of Funds: The Association DCRA ~~may~~ will utilize institutional and investment professionals operating in a manner consistent with this policy.

209.9 Reporting

209.9a Methods: The ~~Association DCRA~~-Executive Director, in conjunction with the ~~Community Council~~-Director of Financial Operations, shall provide an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This report will be prepared in a manner that will allow the ~~Association DCRA~~-Budget & Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities and CDs held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration. Note, this is only required annually.
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

209.9b Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

209.10 Policy Considerations

209.10a Adoption: This policy shall be adopted by resolution of ~~the Association DCRA's~~ Board of Directors. The policy shall be reviewed annually by the ~~Association DCRA~~-Executive Director, ~~Association DCRA~~-Treasurer, ~~and~~ the ~~Association DCRA~~-Budget & Finance Committee and Director of Financial Operations. Recommended changes will be presented to the DCRA Board of Directors for approval.

209.11 List of Attachments: The following documents, as applicable, are attached to this policy:

209.11a Listing of Authorized Investment Advisors/Brokers/Dealers and Investment Institutions

Approved By: _____ Date _____
Board Secretary

Effective Date: _____

Proposed

Attachment A

Authorized Investment Institutions

1. Wells Fargo Bank N.A.
2. Alliance Bank
3. BOK Financial

Authorized Investment Advisors/Brokers/Dealers

1. Wells Fargo Advisors LLC
2. BOK Financial

Proposed