



**DC Ranch Association
Board Report 1-6-20 #1**

Subject Matter: Proposed Revisions to Policy 205 – Investments

Background: The Budget and Finance Committee and 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.

Notably, 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 Board reviewed the proposed revisions at its October 10, 2019 board meeting and conditionally approved them. The proposed revisions were then posted for the 30-day member comment period; no comments were received. The proposed policy revisions were presented to the Board at its December 2, 2019 board meeting. The Board asked that references to “benchmarks” be clarified. We consulted with our investment advisors and, as a result, the additional revisions to the proposed policy are suggested. These proposed revisions should not trigger an additional member comment period.

The Board, if so inclined, can now formally consider approval of the proposed revisions.

Recommendation: Approve the proposed revisions.

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 205

Date of Adoption:

Effective Date:

Last Revised: January 2, 2020

205.1 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).

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

205.3 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.

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

205.4a 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 to mitigate principal risk and interest rate risk.

- **Credit Risk** – The Association 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 205.7a.

- *Interest Rate Risk* – The Association 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).

205.4b 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 and reserve funds of the Association will be forecast quarterly so that investments may be made to mature on or before such expenditures. The forecast for the 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 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 Board of Directors.

205.5c Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering 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.

205.5 Standards of Care

205.5a Prudence: The standard of care to be used by the Association's Executive Director, the Treasurer and the Association's 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 Treasurer and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

205.5b Ethics and Conflicts of Interest: The Association board members, Budget & Finance Committee members, DCRA Executive Director, 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.

205.5c Delegation of Authority: Authority to manage the investment program is granted to the Association Executive Director and Association Treasurer, acting together and in consultation with the Director of Financial Operations. Responsibility for the operation of the investment program is hereby delegated to the Association Executive Director, who with approval of the Association Treasurer and the Association 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 Board of Directors, the Treasurer and the Association Executive Director.

205.6 Investment Transactions

205.6a Authorized Financial Dealers and Institutions: A list of financial dealers and financial institutions will be maintained who are authorized to conduct investment transactions. An annual review of the financial dealers and institutions will be conducted by the Association Executive Director and Director of Financial Operations and approved by the Association 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 Budget & Finance Committee.

205.6b Internal Controls: The Association Executive Director, in conjunction with the Director of Financial Operations, is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the Association's independent auditor. The internal control structure shall be designed to ensure that the assets of the Association 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 judgments by management.

205.7 Suitable and Authorized Investments

205.7a 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 will consider and which shall be authorized for the investments of funds by the Association.

- *United States Treasury Securities* – The Association 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 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 may invest in money market mutual funds that are SEC registered 2(A) 7 funds only. Money market funds and short-term bond funds must own exclusively U.S. Government securities.

205.7b Investment Restriction and Prohibited Transactions. To provide for the safety and liquidity of the Association'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.

205.8 Investment Parameters

205.8a 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.

205.8b Maximum Maturities: To the extent possible, the Association 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.

205.8c Pooling of Funds: The Association 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.

205.8d External Management of Funds: The Association may utilize institutional and investment professionals operating in a manner consistent with this policy.

205.9 Reporting

205.9a Methods: The Association Executive Director, in conjunction with the 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 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, e.g. **the U.S. Treasury curve at the same duration as the portfolio.**
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

205.9b 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 **by the Budget and Finance Committee** against which portfolio performance shall be compared on a regular basis.

205.10 Policy Considerations

205.10a Adoption: This policy shall be adopted by resolution of the Association Board of Directors. The policy shall be reviewed annually by the Association Executive Director, Association Treasurer, the Association Budget & Finance Committee and Director of Financial Operations. Recommended changes will be presented to the DCRA Board of Directors for approval.

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

205.11a Listing of Authorized Investment Advisors/Brokers/Dealers and Investment Institutions

Approved By: _____ Date _____
Board Secretary

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