

SALT POND HOMEOWNERS ASSOCIATION INVESTMENT POLICY

The Board of Directors of the Salt Pond Homeowners Association (“Association”) hereby adopts this Investment Policy under action taken at the Board meeting held on Friday, May 16, 2008 and directs the Association’s managing agent (currently Legum and Norman) to invest funds on behalf of the Association as specified herein. The Board of Directors (“BOD”) or its Finance Committee will review such guidelines at least on an annual basis. Any changes to, or deviations from, this policy must be approved by the BOD.

PURPOSE

This policy is designed to provide written guidelines for investment of the Association’s operating and reserve funds. Funds invested by the Association represent cash necessary for operations and the capital reserves required to maintain the quality and value of the commonly owned property of Association members.

INVESTMENT OBJECTIVES

The Association believes that conservative investments are most appropriate given the nature of funds entrusted to it by members. The Association is averse to incurring market risk and will sacrifice yield in the interest of safety and liquidity. Care must be exercised to ensure that investments selected, when held to maturity, will not expose the Association to loss of principal.

The three investment objectives for the Association in the order of their importance are:

- **SAFETY**—protecting the principal (amount of original investment) from as much risk as possible.
- **LIQUIDITY**—the ease and costs associated with converting an investment into cash or cash equivalent to meet the operating and capital reserve expenditure requirements of the Association.
- **YIELD**—the amount of return of an investment. The ultimate earnings from an investment are not necessarily the stated rate of interest. Returns are maximized and meet or exceed inflation on a net after tax basis. It is intended that all investments will be held to maturity. Liquidating term investments prior to maturity and generating any gain or loss is only permitted to manage liquidity requirements specified by this policy or in an emergency situation and only with the approval of the majority of the BOD.

SAFETY

There is a very limited amount of risk that is acceptable within the operating and reserve funds of the Association. Investments will be selected with an emphasis on preservation

of capital, quality, effective maturity and net after-tax yield. All investments shall be at minimal risk. As of the date of this approval, the approved types of investments with the confines of “Minimal Risk” are as defined below. Additional approved minimal risk investments may be added with the approval of the BOD.

Approved Minimal Risk Investments

- Certificates of Deposit issued by a well capitalized or adequately capitalized FDIC-insured financial institutions with no more than \$100,000 invested in any one financial institution including, but not limited to, callable, step-up, variable rate, inflation-protected and index linked Certificate of Deposit product offerings.
- U.S. Treasury securities and T-bills
- Interest bearing money market accounts with FDIC-insured financial institutions at the maximum of \$100,000 per institution.
- Money market mutual funds invested in U.S. Treasuries and/or Government security or their equivalents.

Prohibited Investments

As of the date of this approval, the prohibited types of investments are defined below. Additional prohibited investment vehicles may be added from time to time by the BOD.

- Corporate Bonds
- Common Stocks
- Mutual Fund investments in common stocks or corporate bonds.

LIQUIDITY

Ongoing liquidity needs will be monitored regularly by the Association to assure cash flow requirements are met on a day-to-day, cyclical and long-term basis. Management of investable operating and reserve cash of the Association will be supported by investments that provide ample liquidity without loss of principal.

Operating Funds

Funds in the operating checking account shall be kept at a reasonable level as determined by the Treasurer. Consideration shall be given to net after-tax benefit of interest earnings available versus analysis credits provided to cover bank service fees and other costs in determining operating checking account levels to be maintained.

Based upon the parameters of operating cash flow projections, a minimum of 20% of the annual budget for the current year shall be maintained in liquid accounts at all times. Any operating funds in excess of this amount may be invested in approved investments for terms of three months or less. Maturities may be laddered to provide replenishment of

minimum available operating funds as outlined above. The overriding goal is to have all operating funds liquid enough that all operating funds are considered as cash for accounting purposes.

Reserve Funds

Reserve funds shall be maintained in term investments with liquid funds available for scheduled reserve expenditures. Based upon the parameters of reserve cash flow projections incorporating the most recent reserve study and capital expenditure budget, a minimum of 15% of available reserves shall be maintained in liquid accounts. Additionally, reserve contributions and funds maturing in a given year shall be sufficient to cover at least 125% of planned reserve expenditures and should be scheduled to ensure availability of funds when needed.

The Association's portfolio will be structured on a laddered basis with investments that mature in successive periods. The following are Maturity criteria for invested reserve funds:

- Investments must have final maturities on longer than 15 years.
- Investment maturities should meet projected cash flow needs.
- Average maturity for all investments shall not exceed 5 years.

All yields in the reserve funds must be reinvested in the reserve fund unless used for designated reserve expenses.

INVESTMENT ADMINISTRATION AND REPORTING

The BOD shall be responsible for executing investment decisions under the parameters of this policy. All investment and reinvestment decisions must be approved by the BOD before implementation. The Association Treasurer, in consultation with the BOD as necessary, shall ensure that the BOD has a report available of all funds at all Board meetings. The Treasurer shall be responsible for the preparation and submission of a quarterly investment report for all investments. This report will include, but not be limited to, financial location of investments, the rate of return, the maturity date, and for all investments that are set to mature within 45 days, the reinvestment options and a recommendation on where to reinvest or otherwise what to do with the maturing funds. The Treasurer must consult the Association's financial advisor (currently PNC Bank, Investment Division) prior to making investment recommendations to the BOD. The Treasurer will report the interest income monthly at all Board meetings.

The Association Treasurer is authorized to open and maintain accounts with a bank as required to carry out the investment decisions. These decisions must be approved by the BOD prior to the Treasurer directing the Bank to implement investment decisions. Two signatures should be required to withdraw funds from investment accounts. However, an

exception may be made for transfers between Association internal accounts. Board members may not delegate their overall legal obligation to protect the Association's assets. The BOD must, therefore, invest association reserve funds responsibly and in a way that provides: first safety, then liquidity, and finally yield.

Other investment, administrative and reporting requirements:

- The Association's Management Company is to deposit all payments received on a daily basis.
- Transfers of budgeted additions to reserves are to be made on a monthly basis accounting wise; the cash will be transferred from the operating account to the reserve account when cash is available to do so. The timing of investment maturity dates influences this requirement.
- The Treasurer will review reconciled bank statements from the management company each month and will report the findings to the BOD. The Board President should sign off and approve the reconciled statements. Since these reports come from the Management Company, the procedures for obtaining this information must be established in conjunction with them.
- Association managers, employees, and volunteers should be covered by fidelity insurance (insurance that protects against employee dishonesty which may lead to the theft of money, securities, or property) to protect the Association from loss due to employee theft.