LYNN WEALTH MANAGEMENT
RESERVE FUND MANAGEMENT

White Paper #2
An authoritative guide designed to help board members make educated decisions.

Appropriate Investments

For community Associations

- The Davis-Stirling act (a comprehensive body of law governing common interest developments) is not specific when it comes to setting standards for managing reserve funds.

- CAI's Guide for Association Practitioners, "Reserve Funds: How & Why Community Associations Invest Assets" is more specific. In the section titled "Investments Suitable for Associations Reserves", only the following investments are listed: CDs, money market funds, and U.S. Treasury securities.

- In their interpretation of the civil code, most CPAs and attorneys specializing in the community association industry do not condone the use of investments other than CDs and U.S. Treasury securities. Deviating from this precedent may not only jeopardize the association's investments but also put board members at risk for breach of their fiduciary responsibility.

- An association's Covenants, Conditions and Restrictions (CC&Rs) are governing documents that dictate how the associations operates and what rules the owners must obey. Some CC&Rs provide specific guidance on what investments are allowed for that particular association.

If an association is adamant about "taking a little risk" to get a better return, I urge them to get advice, in writing, from their attorney and CPA before deviating from the generally accepted investment principles for associations. Without receiving a professional opinion, each board member is subjecting themselves to unnecessary risk.

For more information contact us at dave@lynnwm.com

CDs are insured by the FDIC, an independent agency of the U.S. Government, up to a maximum of $250,000 (including principal and accrued interest) for all deposits held in the same insurable capacity (e.g. individual account, joint account, IRA etc.) per CD depository. Investors are responsible for monitoring the total amount held with each CD depository. All deposits at a single depository held in the same insurable capacity will be aggregated for the purposes of the applicable FDIC insurance limit, including deposits (such as bank accounts) maintained directly with the depository and CDs of the depository. For more information visit the FDIC website at www.fdic.gov.
Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.
The views expressed herein are those of the author and are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.