

The Following are made part of the Rules and Regulations of the Association:

## FISCAL POLICIES

### General Policies

- 1. Transparency.** The General Manager, bookkeeper, accountant, and Board Officers shall always err on the side of transparency and accountability in all financial matters. This means taking all steps necessary to avoid any real or apparent conflicts of interest, to eliminate opportunities for misappropriation of funds or other improprieties in Coakley's financial dealings, and to assure Board knowledge of all major expenditures.
- 2. Financial Controls.** The board shall, with the assistance of its outside auditors, establish proper accounting and operating controls and procedures, which shall be memorialized in writing, to protect the assets of the Association; control expenses and comply with tax laws and regulations. These controls shall be reviewed by the Board and its outside auditors at least annually and revised if necessary. The Board shall also appoint three Unit Owner(s) who may, but need not be members of the Board, to an audit committee to monitor compliance with these controls and procedures. This committee shall report directly to the Board of Directors and to the Unit Owner(s) at the annual Condominium Unit Owner(s) meeting. (Bylaws)
- 3. Funds and accounts.** The receipts and expenditures of the Association shall be Common Expense Assessments and Common Expenses respectively, and shall be credited and charged to accounts under the following classifications as the Board shall deem appropriate: current expenses; reserve for deferred maintenance; reserve for replacement; reserve for capital improvements; operations. The Board shall not be required to physically segregate the funds held in the above accounts but may maintain the funds in one or more accounts, and the classifications set forth above need be made only on the Associations records. (See bylaws for full text and context)

### Depositories

- 4. General.** The depository of the Association shall be such federally insured institutions as shall be designated from time to time by the Board and in which the monies of the Association shall be deposited in the name of the Association [emphasis added]... The amounts assessed and collected for the reserves shall be kept in one or more federally insured interest-bearing accounts or certificates of deposit and shall not be utilized for any purpose other than that which was identified at the time of the assessment. (See Bylaws for full text and context.)

**5. Debit card and other accounts.** All bank, debit card or other accounts must be in the name of the Coakley Bay Association. The General Manager may be a cardholder with spending authority limited by other policies regarding large expenditures.

**6. Investment and reserve account depository criteria:**

- o The account must be controlled to prohibit on-line withdrawals or transfers by a single individual.
  
- o Coakley must be able to require two signatures for withdrawals or transfers over \$2500 (e.g., check writing, or wire transfers with 2 signature requirement).
  
- o There must be multiple cash-equivalent or other investment options (money markets, CD's etc.), to assure that all principal is subject to FDIC insurance, yet allow for maximizing interest earnings.
  
- o Preference for a) a brokerage firm, rather than an investment bank or regular bank; b) an institution with a local contact or representative; and c) an institution where account maintenance fees are low or non-existent.

**Segregation of Accounting Duties**

**7. Second signatures.** A second authorized signature is required on all checks, wire transfers or electronic funds transfers over \$2,500. Whenever possible the Treasurer should provide that second signature. Multiple checks must never be written to pay a single expense or invoice, if the purpose of dividing the expense into multiple payments is to avoid the second-signature requirement.

**8. Debit card payments.** Checks written for deposits into a debit card account or pre-funded credit card account must be in increments of no less than \$2,500, so that purchases and account funding will be subject to second signature review.

**9. Transfers between bank accounts.** All bank accounts, including Coakley's reserve investment account, must require 2 signatures for all withdrawals, expenditures or transfers over \$2500. All checks should be imprinted with the \$2,500 signature requirement near the signature line. All checks issued to transfer funds from one Coakley Bay account to another should have an endorsement, "Deposit to Coakley Bay Account," prior to being given to any signatory for signatures.

10. **Check log.** The Treasurer will keep a log of all checks over \$2500 and report those to the Board and the audit committee monthly. If either of the two back-up signatories signs a check over \$2500, they must communicate that to the Treasurer, so the check can be added to the Treasurer's check log.

11. **Signatory as payee.** Checks with the General Manager or any other account signatory as the payee must be signed by an authorized signatory other than the payee.

12. **Review of bank statements.** The Treasurer or other knowledgeable person other than the general manager or bookkeeper should review each bank statement (including investment and credit card accounts) prior to reconciliation. The Treasurer will describe in writing to the audit committee the process for facilitating this review.

13. **Administrative access to accounting system.** Neither the general manager nor the bookkeeper should have administrative access to the accounting system that allows them to set pass codes, set access privileges, or turn audit trails on or off. Administrator privileges should be retained by the Board or by an outside accounting or auditing firm.

14. **Segregation of accounting and check signing authority.** No one who is authorized to sign checks should have the kind of access to the accounting system that allows them to make or modify journal entries.

15. **Audit trail.** The accounting system audit trail should be turned on, so that there is a record of which authorized user made each entry.

16. **Third party oversight.** Outside accounting oversight should be provided at least quarterly, with particular attention to adjusting journal entries, possible coding errors and bank reconciliations. The accountant responsible for the third-party oversight reports to the Audit Committee and Treasurer.

17. **Internal reporting.** The bookkeeper is authorized to alert the outside accountant and/or a member of the Audit Committee – without obtaining permission from the general manager – if the bookkeeper has questions or concerns about specific financial activities or transactions.

## **Segregation of purchasing duties**

(Note: There are several unofficial office procedures and practices to track purchasing and inventory of materials and equipment, but no official Board-adopted policies other than the one below adopted in 2007.)

**18. Purchases benefiting specific employees.** For purchases benefiting or perceived to benefit an employee, prior approval by a Board member is required, and payment must be signed by an authorized signatory not benefiting from the purchase.

## **Accuracy of Financial Information**

**19. Revenue and expense coding.** All expenses and revenues must be accurately coded to reflect the actual purpose of the expense or nature of the revenue and should never be intentionally miscoded so that spending appears to fit within budget categories. This is necessary to assure accuracy of the financial reports that the Board relies on for its budgeting and other financial decisions. Any disagreements between the staff and Treasurer regarding coding or other accounting issues that cannot be resolved within one day should be referred to the Board.

**20. Fixed assets.** Equipment or other assets with a cost in excess of \$2500 and a useful life of 5 years or more should be capitalized as fixed assets and depreciated.

## **Expenditure controls**

**21. Personnel.** The addition of new personnel requires BOD approval.

**22. Budget overruns.** The General Manager shall communicate with the Treasurer in cases where specific budget line item overruns of the larger of 10% or \$5,000 are likely.

**23. Prior review of large expenses.** Any non-recurring expense or contract that has not already been specifically approved by the Board and is in excess of \$2,500, the Treasurer shall be informed prior to incurring the expense or signing the contract. The Treasurer shall inform the board and, except in emergency situations, the Board should approve these expenses before they are incurred.

**24. Reserve maintenance and replacement study.** An analysis of actual and necessary reserves for deferred maintenance, major maintenance and capital replacement shall be updated and completed annually in sufficient detail to satisfy the bylaws and the auditor.

25. **Contractors.** It is the policy of the Association that all contractors, other than sole proprietors, providing services to the Association provide satisfactory evidence of workers' compensation insurance; and all contractors providing services to the Association valued at more than \$10,000 provide satisfactory evidence of liability insurance.

As amended and approved by the Board of Directors, October 26, 2009

Reaffirmed with slight revisions December 7, 2009

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Carl Hartmann, President

Executed by me on August 2, 2009, re-executed as revised December 7, 2009

## **Resolution - Conflict of Interest Policy**

(To be included in accounting and financial handbook as Rules of the Association)

### **Article I**

#### **Purpose**

The purpose of the conflict of interest policy is to protect this Association's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the **COAKLEY BAY TOWNHOUSE APARTMENTS CONDOMINIUMS ASSOCIATION** (Association) or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to homeowner associations.

### **Article II**

#### **Definitions**

##### **1. Interested Person**

Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

## **2. Financial Interest**

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a.** An ownership or investment interest in any entity with which the Association has a transaction or arrangement,
- b.** A compensation arrangement with the Association or with any entity or individual with which the Association has a transaction or arrangement, or **c.** A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Association is negotiating a transaction or arrangement. Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial. A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

## **Article III**

### **Procedures**

#### **1. Duty to Disclose**

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

#### **2. Determining Whether a Conflict of Interest Exists**

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

#### **3. Procedures for Addressing the Conflict of Interest**

- a.** An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

**b.** The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

**c.** After exercising due diligence, the governing board or committee shall determine whether the Association can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

**d.** If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Association's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

#### **4. Violations of the Conflict of Interest Policy**

**a.** If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

**b.** If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

#### **Article IV**

##### **Records of Proceedings**

The minutes of the governing board and all committees with board delegated powers shall contain:

**a.** The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

**b.** The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to

the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

## **Article V**

### **Compensation**

- a.** A voting member of the governing board who receives compensation, directly or indirectly, from the Association for services is precluded from voting on matters pertaining to that member's compensation.
- b.** A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Association for services is precluded from voting on matters pertaining to that member's compensation.
- c.** No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Association, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

## **Article VI**

### **Annual Statements**

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

- a.** Has received a copy of the conflicts of interest policy,
- b.** Has read and understands the policy,
- c.** Has agreed to comply with the policy, and
- d.** Understands the purposes of the Association and that it must engage primarily in activities which accomplish those purposes.

## **Article VII**

### **Periodic Reviews**

To ensure the Association operates in a manner consistent with its purposes and does not engage in activities that could jeopardize its good standing, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a.** Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.

**b.** Whether partnerships, joint ventures, and arrangements with management organizations conform to the Association's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further the Association's purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

## **Article VIII**

**Use of Outside Experts** When conducting the periodic reviews as provided for in Article VII, the Association may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

Adopted by a Vote of the Board of Directors the 2nd Day of August, 2009

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Carl Hartmann, President Executed by me on August 2, 2009