Glossary style:

1.5 Financial Records and Reporting This says how we keep track of the co-op's money and how members are told about it. Every year, members get a financial report within 90 days of year-end. A CPA is involved every year at one of three levels — compilation, review, or full audit — chosen by the Board based on what makes sense that year. A full audit happens automatically when the law requires it, when a lender requires it, or when members vote to demand one. And no matter what, a full audit happens at least once every five years to keep the books in shape and the co-op loan-ready.

Section 1.5 – Financial Records and Reporting

Original Text

1.5 Financial Records. *The Corporation shall maintain adequate and correct books and records of account. An annual financial report consisting of (a) a balance sheet, (b) an operating (income) statement, (c) a statement of changes in financial position and (d) a management letter shall be made available to all Members within ninety (90) calendar days after the close of each fiscal year. The annual financial report shall be prepared by a Certified Public Accountant and shall be on an audited basis.*

Proposed Rewrite

1.5 Financial Records and Reporting.

(a) Books and Records. The Corporation shall maintain adequate and accurate books and records of account in accordance with generally accepted accounting principles, to the extent practicable for a cooperative of its size and resources.

(b) Annual Financial Report to Members. Within one hundred twenty (120) calendar days after the close of each fiscal year, the Corporation shall make available to all Members an annual financial report that includes, at a minimum:

(1) a balance sheet as of the end of the fiscal year;

(2) an operating (income) statement for the fiscal year; and

(3) any report or management letter issued by the Corporation's independent accountant, if applicable.

(c) Statutory Requirement. In addition to the foregoing, the Corporation shall furnish any Member, upon written demand, with the latest annual financial statements of the Corporation as required by the Arizona Nonprofit Corporation Act.

(d) Level of Accountant Engagement.
Consistent with the Arizona Nonprofit Corporation Act and other applicable Arizona law, the Board of Directors shall engage an independent Certified Public Accountant, accounting firm, or other qualified independent financial professional each fiscal year to prepare or review the Corporation's financial records through a compilation, review, audit, or other appropriate financial engagement, as determined by the Board based on the operational needs, financial condition, and legal or contractual obligations of the Corporation.

(e) Compliance With Arizona Law.

The Corporation shall comply with the financial recordkeeping and reporting requirements of the Arizona Nonprofit Corporation Act, including A.R.S. Title 10, Chapter 24, and any other applicable Arizona law. The Corporation shall also comply with any applicable financial disclosure requirements under A.R.S. §33-1810, as may apply to the Corporation from time to time. Nothing in these Bylaws shall be interpreted to require a greater level of financial engagement than required by applicable law unless otherwise directed by the Members, required by a lender or contractual obligation, or approved by the Board of Directors.

(f) When a Full Audit Is Required.
A full independent audit of the Corporation's financial statements shall be performed whenever:

1. required by applicable law;
2. required by any current or prospective lender, mortgagee, refinancing party, insurer, grant requirement, or other binding contractual obligation of the Corporation; or
3. directed by the Members through an affirmative vote of a majority of the Eligible Votes represented and voting at a duly called meeting at which a quorum is present.

(g) Periodic Financial Oversight.
Regardless of whether a full audit is required under subsection (f), the Board of Directors shall maintain the Corporation's financial records in a condition sufficient to support a future audit, financing request, refinancing effort, insurance requirement, reserve study, or other lawful business purpose. The Board may obtain

a full audit whenever it determines such audit is in the best interests of the Corporation.

Why the Change

1. **Anchors the bylaw to Arizona law instead of an impossible standard**

   The original required a full annual CPA audit. Arizona law only requires that the co-op furnish financial statements to members on written demand, with CPA involvement optional. Our original bylaw was stricter than the law, and the co-op has been unable to consistently meet it. This rewrite tracks what the law actually requires while keeping more for members than the law's minimum.

2. **Saves significant money in normal years**

   A compilation typically costs $3,000–$6,000. A review costs $8,000–$15,000. A full audit costs $15,000–$30,000 or more for a co-op our size. Letting the Board choose the appropriate level each year — with a guaranteed audit at least every five years — can save tens of thousands of dollars over a decade without losing financial accountability.

3. **Guarantees an audit at least every five years**

   Even in years without a loan trigger or member demand, a full audit must happen at minimum every five years. This keeps the books in audit-ready shape, prevents long gaps in oversight, and ensures the co-op stays positioned to take out a loan when needed.

4. **Automatically triggers a full audit when a loan is in play**

   The moment the Board pursues a loan or refinancing, the audit requirement kicks in — no separate vote or delay required. The co-op is always loan-ready.

5. **Keeps a CPA involved every single year**

   The Board never gets to skip CPA involvement entirely. Outside eyes on the books each year is non-negotiable. What changes is the depth of that work.

6. **Gives members real power**

   Members can vote at any meeting to require a full audit that year. The Board's flexibility is bounded by what members want.

7. **Adds explicit audit-preparedness requirement**

Even in non-audit years, the Board must keep records in a condition that allows a full audit on reasonable notice. This protects the co-op from the common trap where a sudden need for an audit reveals years of poor record-keeping.

8. **Expanded the report window from 90 to 120 days**

   Even basic CPA work takes time. A 120-day window gives the accountant room to do quality work and gives the Treasurer time to review and distribute. 120 days is the typical industry standard for community associations.

9. **Modernized the report content list**

   Dropped the "statement of changes in financial position" requirement, which is no longer a standard separate financial statement under current GAAP. Kept balance sheet, income statement, and the management letter.

10. **Cures current non-compliance**

    Once ratified, the co-op is back in compliance with its own bylaws.

Glossary style:

1.6 Reserve Requirements This says we keep two savings accounts — one for emergencies and one for big long-term repairs. The Emergency Reserve has a minimum floor of $150,000, but the Board can set a higher target each year based on real costs. Reserve money lives in safe, low-risk accounts only — never in stocks or anything that could lose value. Every five years, a professional reserve study tells us how much we should be saving for big future repairs. The Board reviews reserves every year as part of the budget, so we're not caught flat-footed when costs go up.

Section 1.6 – Reserve Requirements

Original Text

1.6 Reserve Requirements. *The Corporation shall keep two reserve accounts at all times:*

(a) Emergency Reserve Account. This emergency reserve account shall have a minimum of $150,000.00 on deposit. Emergency shall be defined as Acts of God, fire, flood, plumbing or sewer breakage where the expense cannot be absorbed in the annual budget. Any funds used from this fund, must be with Board approval voted in an open meeting. Any and all funds used must be replaced as soon as practicable as part of the annual budgeting process.

(b) Capital Replacement Reserve. This reserve shall be for the funding of long term replacement items, i.e., roofing, major plumbing, sewer, water lines, major electrical wiring, paving, painting of buildings, etc. This reserve will vary in amount due to project costs. Any funds used from this fund must be with Board approval voted in an open meeting. Reserve amounts shall be based on inputs from the finance committee and property manager. Not less than once each five (5) years, the Board of Directors shall obtain a reserve study from a recognized reserve analysis company.

Proposed Rewrite

1.6 Reserve Requirements. The Corporation shall maintain two reserve accounts at all times:

(a) Emergency Reserve Account. The Emergency Reserve Account shall maintain a minimum balance in an amount determined by the Board of Directors in connection with the annual budget, based on current construction and repair costs and, if available, the most recent reserve study, but in no event less than One Hundred Fifty Thousand Dollars ($150,000.00). For purposes of this Section, an "Emergency" includes, without limitation, Acts of God, fire, flood, or major plumbing or sewer failures where the expense cannot reasonably be absorbed within the then-current annual operating budget. Any disbursement from the Emergency Reserve Account must be approved by the Board of Directors at a duly noticed open meeting, and any amounts used shall be replenished as soon as reasonably practicable through the annual budgeting process.

(b) Capital Replacement Reserve. The Capital Replacement Reserve shall be used to fund the long-term replacement of major components of the property, including, by way of example, roofing, major plumbing, sewer and water lines, major electrical systems, paving, and exterior painting of buildings. The balance of this reserve will vary based on project costs, anticipated replacement schedules, and the most recent reserve study. Any disbursement from the Capital Replacement Reserve must be approved by the Board of Directors at a duly noticed open meeting. Reserve funding levels shall be determined by the Board of Directors based on recommendations from the Finance Committee and the General Manager, together with the most recent professional reserve study.

(c) Annual Review of Reserve Adequacy. In connection with the annual budget process, the Board of Directors shall review the adequacy of both reserve accounts against current construction, repair, and replacement costs, and shall adjust reserve funding levels accordingly.

(d) Safekeeping of Reserve Funds. Both reserve accounts shall be maintained in separate, identified accounts at one or more federally insured financial institutions, segregated from the Corporation's operating accounts. Reserve funds shall be held in low-risk deposit accounts, money market accounts, or certificates of deposit at federally insured financial institutions. Reserve funds shall not be placed in stocks, bonds, or any account that puts the principal at risk of loss.

(e) Reserve Study. Not less than once every five (5) fiscal years, the Board of Directors shall obtain a reserve study from a recognized reserve analysis firm to evaluate the long-term replacement needs of the property and to guide reserve funding levels. The Corporation shall obtain its initial reserve study under this Section within twelve (12) months of the ratification of these Bylaws, and subsequent studies shall be obtained not less than once every five (5) years thereafter.

Why the Change

1. **Fixes the 2019-dollar problem without constant bylaw changes**

   The original locked the Emergency Reserve at $150,000. Construction and repair costs have risen substantially since then, and they continue to rise unevenly with materials, labor, and broader economic conditions. The rewrite keeps $150,000 as a floor that can never be lowered without member vote, but lets the Board set a higher target each year based on current realities. So $150,000 becomes the minimum, not the target.

2. **Clarifies what counts as an Emergency**

   Kept the original list (Acts of God, fire, flood, plumbing/sewer disasters) but tightened the standard. “Cannot reasonably be absorbed within the then-current annual operating budget” matches how professionals draw the line between true emergencies and ordinary repairs.

3. **Closes the reserve-study loophole**

   Added “if available” to the reserve study reference, so a future Board can’t hide behind a missing study to avoid raising the target. The Board must look at current costs every year regardless of whether a study has been done.

4. **Adds an annual reserve review**

   The Board must now formally review reserve adequacy every year as part of the budget. This builds in a regular check against rising costs and changing conditions, rather than waiting until the next reserve study to discover reserves have fallen behind.

5. **Protects reserves from being commingled with operating money**

   Reserve accounts must now be held in separate, identified accounts, segregated from operating accounts. This prevents reserves from being accidentally spent on day-to-day operations and makes any misuse easier to detect.

6. **Names where reserves can be held — and where they can’t**

   Reserve funds may be held in deposit accounts, money market accounts, or CDs at federally insured institutions. They may never be placed in stocks, bonds, or anything that puts the principal at risk. The Board has flexibility to earn modest interest, but cannot gamble with the co-op’s emergency funds.

7. **Cures the 25-year reserve study gap**

The last professional reserve study was completed in 2001, meaning the co-op has been technically out of compliance with this Section for decades. The rewrite adds a 12-month deadline after ratification for the first new study, giving the Board a clear runway to get back on track without inheriting an immediate violation.

8. **Works hand-in-hand with Section 1.5**

   Healthy reserves and clean audits are the two things lenders evaluate when the co-op needs financing. The Audit Preparedness language in Section 1.5 and the Reserve Requirements here are designed to work together so the co-op stays loan-ready when major projects require borrowing.

9. **Modernized language throughout**

   "Any funds used from this fund, must be with Board approval voted in an open meeting" became "any disbursement ... must be approved by the Board of Directors at a duly noticed open meeting." Same requirement, modern wording that reads better aloud.

Glossary style:

1.7 Fidelity Bonds This requires the co-op to carry insurance that protects against theft or misuse of money by people who handle co-op funds. The coverage has to be at least as much as the money that could actually be at risk. The co-op pays for this insurance, not the individuals.

Section 1.7 – Fidelity Bonds

Original Text

1.7 Fidelity Bonds. *The Board of Directors shall obtain fidelity bonds for all officers and employees of the Corporation, in an amount determined by the Board, but which shall be not less than the amount of the annual operating budget. The premiums on such bonds shall be paid by the Corporation.*

Proposed Rewrite

1.7 Fidelity Bonds. The Board of Directors shall obtain fidelity bond coverage (or comparable crime or employee dishonesty insurance) for all officers and employees of the Corporation, and for any other person authorized to handle, disburse, or have custody of Corporation funds, in such amounts as the Board of Directors may determine, but in no event less than the greater of the Corporation's annual operating budget or the total amount held in the Corporation's reserve accounts. The premiums for such coverage shall be paid by the Corporation.

Why the Change

1. **Updates the language to what insurers actually use now —** Added "coverage (or comparable crime or employee dishonesty insurance)" because this protection is now usually written as an insurance policy, not an old-school "bond." The protection is the same: it covers theft or misuse of money by people who handle funds.
2. **Covers everyone who actually touches the money —** Added "any other person authorized to handle, disburse, or have custody of Corporation funds," so the coverage clearly includes the General Manager, the managing agent, and anyone else handling money — not just those covered by title.
3. **Ties coverage to the money actually at risk —** The original tied coverage only to the annual operating budget. The reserves are a much larger pot of money and a bigger target. The rewrite requires coverage of at least the greater of the operating

budget OR the total reserves, so protection scales to whatever money is actually exposed.

4. **Tightens the language —** "but which shall be not less than" became "but in no event less than," and "the Corporation's annual operating budget" removes ambiguity about which budget applies.
5. **The Corporation pays —** Unchanged. The co-op pays the premiums, not the individuals.

Glossary style:

1.8 Amendment This is how the bylaws get changed. It takes a strong community vote: at least two-thirds of the votes actually cast must say yes, and at least 120 votes have to be cast for the vote to count. This high bar protects everyone — it means nobody can quietly change the bylaws with a tiny turnout.

Section 1.8 – Amendment

Original Text

1.8 Amendment. *These Bylaws may be amended by an affirmative vote of not less than two-thirds (2/3) of Eligible Votes (as defined in the Bylaws), provided that the number of Eligible Votes cast in connection with such proposed amendment either in person, by proxy, by written consent or by written ballot, as applicable, shall not be less than one hundred twenty (120).*

Proposed Rewrite

1.8 Amendment. These Bylaws may be amended only by the affirmative vote of not less than two-thirds (2/3) of the Eligible Votes cast on the proposed amendment, whether cast in person, by written ballot, or by written consent, provided that the total number of Eligible Votes cast on the amendment is not less than one hundred twenty (120).

Why the Change

1. **Removes a real ambiguity.** The original said "two-thirds of Eligible Votes" without making clear whether that meant two-thirds of all votes that exist (all 350 units) or two-thirds of the votes actually cast on the amendment. The rewrite adds "cast on the proposed amendment" to make it unmistakable: you count two-thirds of the votes actually cast. This is the reading the 120-vote floor was always designed for.
2. **Adds "only" for clarity.** Makes it clear there is no other way to amend the bylaws — it takes this vote, period.
3. **Cleaner sentence structure.** "In connection with such proposed amendment either in person..." became "cast on the proposed amendment, whether in person..." so it reads naturally out loud.
4. **Keeps the same thresholds and protections.** You still need two-thirds of the votes cast to approve, AND at least 120 votes cast for the vote to count at all. That's a high

bar, which is good for stability — nobody can quietly change the bylaws with a tiny turnout.

5. **Removes proxy voting.** The rewrite eliminates proxy voting entirely. Members may still vote in person, by written ballot, or by written consent, but voting power may not be transferred to another individual through a proxy. This keeps voting authority directly with the Member.

Glossary style:

1.9 Dissolution of Corporation This explains what happens if the co-op is ever sold off and shut down. It can't happen unless all the property is sold first, and it takes a very high vote — at least 263 yes votes (about three-quarters of all 350 units). If it ever did happen, each member would get 90% of the fair market value of their unit, plus an equal share of whatever is left over. This section is locked down tighter than the rest of the bylaws: it can only be changed by that same 263-vote threshold, not the normal amendment vote.

Section 1.9 – Dissolution of Corporation

Original Text

1.9 Dissolution of Corporation. *The Corporation may not be dissolved unless and until all property owned by the Corporation has been sold. The sale of all property owned by the Corporation requires the affirmative vote of not less than two hundred sixty three (263) Eligible Votes at a Special Meeting called for the purpose to sell all property and to dissolve the Corporation. Upon such sale and dissolution, after all financial obligations of the Corporation have been satisfied, each Member shall be entitled to receive ninety percent (90%) of the Fair Market Value of his or her Dwelling Unit and Membership (the "Unit Value") plus l/350th of all available proceeds of such sale after the payment of the Unit Value to all Members. For the purpose of this Section, Fair Market Value shall mean the average of the last three sales of a comparable Dwelling Unit. Section 1.8 above notwithstanding, this provision may not be amended except by the affirmative vote of not less than two hundred sixty three (263) Eligible Votes at a Special Meeting called for the purpose of amending this Section.*

Proposed Rewrite

1.9 Dissolution of Corporation. The Corporation may not be dissolved unless and until all property owned by the Corporation has been sold. The sale of all such property, together with the dissolution of the Corporation, shall require the affirmative vote of not less than two hundred sixty-three (263) of the Eligible Votes, cast at a Special Meeting of the Members called for the purpose of approving such sale and dissolution.

Upon such sale and dissolution, and after all debts and other financial obligations of the Corporation have been paid or otherwise satisfied, each Member shall be entitled to receive (a) ninety percent (90%) of the Fair Market Value of his or her

Dwelling Unit and Membership (the "Unit Value") and (b) in addition, one three-hundred-fiftieth (1/350th) of any remaining net proceeds after payment of the Unit Value to all Members. For purposes of this Section 1.9, "Fair Market Value" means the average of the last three (3) sales of comparable Dwelling Units.

Notwithstanding Section 1.8 above, this Section 1.9 may be amended only by the affirmative vote of not less than two hundred sixty-three (263) of the Eligible Votes, cast at a Special Meeting of the Members called for the purpose of considering an amendment to this Section 1.9.

Why the Change

1. **Clarifies the sequence without changing the rule.** Still says you cannot dissolve until all property is sold. Still requires 263 affirmative votes at a Special Meeting called specifically for sale and dissolution. Just cleaned the sentence so it reads naturally.
2. **Cleans up the payout language — same math.** Fixed the typo "l/350th" and wrote it out as "one three-hundred-fiftieth (1/350th)" so no one can misread it. Each Member still gets 90% of the Fair Market Value of their Unit and Membership (the "Unit Value"), plus an equal 1/350 share of any remaining net proceeds after all Unit Values are paid.
3. **Spells out Fair Market Value precisely.** Keeps exactly the same definition — the average of the last three (3) sales of comparable Dwelling Units — just formatted cleanly.
4. **Keeps this section harder to amend than the rest.** This section can't be changed by the normal 2/3-plus-120 standard. It can only be amended by 263 affirmative votes at a Special Meeting called specifically to change it. That tells everyone the "sell everything / dissolve / who gets what" rules are locked down tighter than any other part of the bylaws.

Glossary style:

1.10 Indemnification

Section 1.10 – Indemnification

Original

1.10 Indemnification.

The Corporation shall indemnify its officers and Directors to 2 the maximum extent permitted by law.

Proposed Rewrite

1.10 Indemnification.

The Corporation shall indemnify its current and former officers and Directors to the fullest extent permitted by applicable law. The Corporation shall maintain Directors and Officers (D&O) liability insurance, or comparable governance liability coverage, in such amounts and upon such terms as the Board of Directors determines to be reasonably appropriate for the size and operations of the Corporation. The Corporation may also purchase and maintain any additional insurance on behalf of such persons as permitted by applicable law.

Why the Change

1. **Fixes the typo.** "to 2 the maximum" → **"to the fullest extent"** (standard indemnification language).

2. **Clarifies who is covered.** Added **"current and former"** so protection clearly applies to people who already served, not just those in office today.

3. **Adds the standard insurance requirement.** Adds mandatory governance insurance protection. Explicitly requires the Corporation to purchase and maintain Directors & Officers (D&O) liability insurance, or comparable governance liability coverage, to support and backstop the indemnification protections provided in this Section.

4. This ensures indemnification is supported by actual insurance coverage rather than relying solely on the Corporation’s available funds at the time of a claim.

5. **No expansion beyond what the law allows.** The key limiter is still **“to the fullest extent permitted by applicable law.”**