

**PENNY FLATS CONDOMINIUM ASSOCIATION, INC.
POLICY FOR HANDLING CONFLICTS OF INTEREST
OF DIRECTORS**

Effective: January 1, 2013

1. **Introduction.** The Board of Directors (“Board”) of Penny Flats Condominium Association, Inc., a Colorado nonprofit corporation (“Association”), acting pursuant to the powers set forth in the Association’s Bylaws, Articles of Incorporation, the Condominium Declaration for Penny Flats Condominiums (“Declaration”) (such documents being collectively referred to as the “Association Documents”), and the Colorado Common Interest Ownership Act (“CCIOA”), has enacted the following Policy effective as of the date set forth above. Unless the context otherwise indicates, capitalized words and terms shall have the meanings set forth in the Association Documents and, if not defined in the Association Documents, then as set forth in CCIOA. This Policy supersedes any previously adopted Policy on the same subject matter.

2. **Policy Purposes.** The purposes of this Policy are:

2.1 To set forth procedures and rules to identify and handle conflict of interest situations involving Directors

2.2 To provide a framework for appropriate education of existing and new Directors as to (a) their responsibilities in terms of timely disclosing conflict of interest situations and (b) the limits CCIOA places upon the participation of a Board member with a conflict of interest; and

2.3 To provide a mechanism for the Board to take up and reconsider any decision or action which may inadvertently be rendered without appropriate disclosure and handling of a Board member conflict of interest.

3. **Identification and Disclosure of Conflict of Interest Situations.**

3.1. **Definition of Conflict of Interest.** Unless the Declaration provides a more expansive definition, in which case the Declaration controls, a “conflict of interest” shall be defined as any contract, transaction, or other financial relationship between the Association and a director of the Association, or between the Association and a party related to a director, or between the Association and an entity in which a director of the Association is a director or officer or has a financial interest. A "party related to a director" shall mean a spouse, a descendent, an ancestor, a sibling, the spouse or descendent of a sibling, an estate or trust in which the director or a party related to a director has a beneficial interest, or an entity in which a party related to a director is a director, officer, or has a financial interest.

3.2 **Declaration and Disclosure of Conflict of Interest.** A Board member who has a conflict of interest regarding any contract, decision or other action shall declare and disclose the conflict of interest. In making such declaration and disclosure, the affected Board member shall:

3.2.1 Identify, by agenda item or otherwise with such particularity as necessary to identify the issue in question, the specific pending contract, decision or other action as to which the conflict of interest arises; and

3.2.2 Describe the person or person(s) who would financially benefit from the contract, decision or other action; and

3.2.3 Disclose the nature and magnitude of the financial benefit that would arise out of or as a function of the Board's decision on the contract, decision or other action.

4. **Participation by Board Member Who has Disclosed a Conflict of Interest.**

4.1 **Discussion.** Unless the Association Documents provide for stricter limits on participation, in which case such stricter limits control, a Board member who has a conflict of interest may, after identifying and disclosing the conflict, participate in the Board's discussion of the pending contract, decision or other action. However, upon either (a) the voluntary decision of the Board member who has declared a conflict; or (b) the vote of a majority of the then present Directors who do not have a conflict, the Board member with a conflict may be excused from the discussion of the pending contract, decision or other action, in which case such Board member shall not be present or participate in the Board's evaluation of the issue.

4.2 **Voting.** A Board member who has a conflict of interest shall be considered present for purposes of establishing a quorum and may vote on any matter related to consideration of the contract, decision or other action implicated by the conflict of interest.

5. **Reconsideration of Decisions Impacted by Questionably or Improperly Handled Conflict of Interest.**

5.1 **Effect of Non-Compliance.** The actions of the Board on any conflict of interest transaction shall be considered valid, binding and authorized, and will not be voidable by an Owner or on behalf of the Association, where: (1) the facts of the conflict are known by or disclosed to the Board and a majority of the Board members without a conflict vote in favor of the proposed contract, decision or other action in good faith, even though such disinterested Board members would be less than a quorum; or (2) the facts of the conflict are known by or disclosed to the Owners entitled to vote thereon, and the conflicting interest transaction is specifically authorized, approved, or ratified in good faith by a vote of the Owners entitled to vote thereon; or (3) the conflicting interest transaction is fair as to the Association.

5.2 **Reconsideration/Ratification.** Where the Board identifies a previous contract, decision or other action which was adopted under circumstances where non-compliance with this policy is probable and subsections (1), (2), or (3) of Article 5.1, above, are not satisfied, the Board shall, at an open meeting, take the matter up for reconsideration. At such meeting:

5.2.1 The Board member with a conflict of interest shall fully identify and disclose the conflict as provided above; and

5.2.2 The Board shall discuss whether, after having considered the matter in good faith, the contract, decision or other action should be ratified by a new vote in compliance with this Policy; and

5.2.3 The Board shall conduct a new vote on the question of ratification, which shall satisfy the requirements of Article 5.1 of this Policy.

6. **No Loans to Board Members.** No loans shall be made by the Association to its Board members or officers. Any Board member or officer who assents to or participates in the making of a loan prohibited by this section shall be liable to the Association for the amount of such loan until it is repaid.

7. **Board Member Education.**

7.1 **Existing Directors.** Upon adoption of this Policy, the Association Secretary shall provide all existing Directors with a copy of this Policy.

7.2 **New Directors.** Following adoption of this Policy, the Association Secretary shall promptly provide all new members of the Board elected or otherwise seated on the Board with a copy of this Policy.

7.3 **Annual Refresher.** At least annually, the Board shall discuss this Policy and its requirements.

8. **Variations.** The Board may from time to time vary from the requirements set forth in this Policy if the Board determines in its sole discretion that such variance is reasonable under the circumstances.

9. **Amendment.** This Policy may be amended from time to time by the Board.

CERTIFICATION

The undersigned, being the duly elected and acting Secretary of the Penny Flats Condominium Association, Inc., a Colorado nonprofit corporation ("Association") certifies that the foregoing Policy for Handling Conflicts of Interest of Directors was approved by the vote of a majority of the Association's Directors at a meeting of the Association's Board of Directors held on December 28, 2012.

Penny Flats Condominium Association, Inc., a
Colorado nonprofit corporation

By: Michael Czaja
Michael Czaja, Secretary