

HEATHERWOOD HOMEOWNERS' ASSOCIATION, INCORPORATED

EXHIBIT "D"

MANAGEMENT STANDARDS

AMENDED 03-25-2013

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EXHIBIT "D"

HEATHERWOOD HOMEOWNERS' ASSOCIATION INCORPORATED

MANAGEMENT STANDARDS

I. DEFINITIONS

Approval shall be deemed secured either when written notice to such effect has been received, or when thirty (30) days have elapsed following Prior Notice and no response has been received.

Association shall mean the Heatherwood Homeowners' Association Incorporated.

Board of Trustees shall mean the Board of Trustees of the Heatherwood Homeowners' Association, Incorporated.

Financial Management shall mean billing, collection, and accounting activities.

Financial Manager shall mean a Financial Manager of a professional Community Management Firm.

Prior Notice shall mean the posting of notice to whomsoever intended or required by certified, receipt requested mail, thirty (30) days in advance of a proposed action.

Professional Community Management Firm shall mean a bona fide business enterprise that undertakes the management of or provides management consulting services to common interest residential communities which have common areas subject to care, custody, and control of an association whose members are the residents of such a community.

Property Management shall mean bid invitations, contract negotiations, and supervision related to contract services, personnel, and insurance coverage.

Property Manager shall mean a Property Manager of a professional Community Management Firm.

Required Insurance shall mean such insurance and related provision as set forth in this document as it may be amended from time to time.

II. MANAGEMENT

- A. The Board of Trustees shall employ a professional Community Management firm to perform both Financial and Property Management on behalf of the Association, subject to the following requirements and conditions:
1. The Property Manager shall have at least a reasonable level of knowledge and understanding of such matters sufficient to advise the Board of Trustees as to actions it is considering or involved in. Such a stipulation should not be construed to mean that the Property Manager will offer or render the kind of advice which is restricted to licensed professionals such as attorneys, engineers, and insurance agents.
 2. The Board of Trustees reserves the right to solicit and negotiate arrangements with registered and licensed professionals such as certified public accountants, lawyers, engineers, and similar individuals or groups.
 3. The Property Manager shall not accept from vendors, independent contractors or others who provide services or goods to the Association any remuneration in the form of commission, finders' fees, service fees or the like in consideration for such goods and services.
 4. Financial Management Requirements:
 - a) The method of accounting shall be the accrual method.
 - b) In order to maintain adequate financial control procedures, the person posting cash receipts shall not be the same person who deposits and/or receives the cash.
 - c) The cash accounts of the Association shall not be co-mingled with accounts of any other organization or person.
 - d) All funds shall be deposited in FDIC insured accounts.
 - e) The Financial Manager shall provide monthly financial reports to the Association including, but not limited to the following:
 - (1) Balance Sheet and General Ledger Activity;
 - (2) Bank Statements;
 - (3) Cash Activity Report;
 - (4) Delinquency Summary Report;

- (5) Income Statement showing current period and year-to-date actual format;
 - (6) Outstanding Check list;
 - (7) Profit & Loss Statement showing current period and year-to-date actual versus current and year-to-date budgets, inclusive of variance analysis;
 - (8) Resident Arrears Report;
 - (9) Resident Transaction Report;
 - (10) Statement of Disbursements;
 - (11) Delinquency Summary Report.
- f) The Financial Manager shall provide a monthly list of delinquent accounts to the Board of Trustees and shall comply with Heatherwood's Procedure for Collection of Delinquent Assessments and Related Charges as outlined in the Declaration of Covenants – Article IV – Section 7A.
- g) The Financial Manager shall continually review receipts and expenditures and provide notice to the Board of Trustees of actual or pending obligations which appear to represent an adverse trend relative to the adopted budget. Failure of the Manager to provide such notice shall not be construed as negligence on his/her part; however, this provision shall impose a standard of competency upon the Manager which, if not met, may be deemed a just cause for contract termination or removal from office.
- h) The Financial Manager shall ensure that all service/vendor/contractor invoices are paid in a timely manner. If payments to same are late due to Financial Manager and/or Property Manager's negligence, any fee, late or otherwise, incurred will be the Management Company's responsibility to pay.
- i) The Financial Manager shall provide the following services in addition to those stated herein:
- (1) Assessment Collection:
 - (a) Maintain individual account status of members.
 - (b) Process delinquent accounts.

To accomplish the above, the Association shall authorize the Financial Manager to request, demand, collect, and receive any and all assessments and charges which may at any time be or become due to the Association and to take such action in the name of the Association by way of legal process, or

otherwise as may be required, for the collection of delinquent monthly assessments and charges in accordance with the policy established by the Board of Trustees. Refer to Procedure for Collection of Delinquent Assessments and Related Charges as outlined in the Declaration of Covenants – Article IV – Section 7A.

(2) Financial Management:

- (a) Maintain a comprehensive accounting system with sufficient detail to enable a certified public accountant to prepare an annual financial report based upon an examination of the Association's books and records. The records of the Association shall be subject to examination by the Board of Trustees, its authorized agents and members during business hours. The accounting system shall recognize the various cost control centers of the Association, including services to parcels, where services are provided to more than one parcel under a single contract or by a central staff, the Financial Manager shall provide guidelines to the Board of Trustees for allocation of services to the various cost control centers.
 - (b) Receive, bank, and post rents due from users of non-dwelling facilities in Heatherwood as defined by plans due from concessionaires resulting from authorized operation of facilities of the Association, maintained primarily for the benefit of the members.
- (3) From the funds collected and deposited in the Association's accounts hereinafter provided, cause to be disbursed regularly and punctually all utility bills, taxes, insurance premiums, and other contractual obligations of the Association approved by the Board of Trustees or its designee.
- (4) Provide financial and other information for annual audits, tax filings, and other required reports. (Professional costs for annual audits and all local, state, and federal tax and information returns shall be borne by the Association.)

- (5) After consultation with the Board of Trustees and ninety (90) days before the beginning of the fiscal year, prepare a preliminary operating budget setting forth the itemized statement of the anticipated income and expenses for the new fiscal year based upon the current schedule of assessment and taking into account the general condition of the Association.
- (6) After the operating budget is approved by the Board of Trustees, prepare a monthly expense spread report to ensure proper allocation based on timing of contractual services and historical billing cycles. Report is subject to the Board of Trustees or its designee's approval.
- (7) All bills will be processed through a voucher system requiring the Financial Manager's or its agent's approval. Any payment drawn from the Association funds shall require at least one (1) signature of a Board of Trustee member approved for said purpose and at least one other designee appointed by the Board of Trustees unless the Board of Trustees states otherwise.
- (8) Prepare financial reporting as required by the Board of Trustees or Treasurer.

5. Property Management Requirements:

- a) The Property Manager shall have the authority to commit Association funds up to \$1,000.00 for any single expenditure, providing such commitment does not serve to obligate the Association for more than one (1) year and that it is within the budget authorization. All other expenditures in excess of \$1,000.00 shall require prior approval by the Board of Trustees or designated officer of the Association.

Notwithstanding this provision, the Property Manager shall have the authority to commit Association funds up to \$5,000.00 for emergency repairs immediately necessary for the preservation and safety of the Association or its members or to avoid the suspension of life support services, without prior approval of the Board of Trustees, provided prompt notice is given to the President or other designated officer of the Association.

- b) The Property Manager must disclose the extent of financial interest that he/she may have in any firm's or person's activities when such firm or person is providing goods or services to the Association.
- c) The Property Manager shall provide employee supervision and give advice to the Board of Trustees on personnel matters; however, the Board of Trustees reserves the right to hire, fire, and discipline all employees and set compensation rates and benefits.
- d) The Property Manager shall promptly investigate and provide the Board of Trustees with sufficient information to make all necessary written reports as to all accidents or claims for damage relating to management, operation, and maintenance of the common properties and facilities, including any damage or destruction to the common properties and facilities, and shall cooperate and make any reports required by any insurance company in connection herewith.
- e) If and when requested, the Property Manager shall provide bi-monthly inspections to the properties to monitor the level of performance of the service contractors and personnel, and to ascertain the general condition of the common properties and facilities areas. The Property Manager shall submit a written summary report to the Board of Trustees covering any problem areas, action taken, and recommendation for improvements.
- f) If and when requested, the Property Manager shall provide one (1) inspection per home annually to the properties to ensure compliance with Heatherwood's Architectural Guidelines. The Property Manager shall submit a written summary report to the Board of Trustees notifying them of the following:
 - 1. What homes inspected
 - 2. Violations
 - 3. Action(s) taken
- g) The Property Manager shall compile, assemble, and analyze data to prepare specifications and to call for bids on expenditures greater than \$1,000.00.
- h) The Property Manager shall prepare Request For Proposals (RFP) upon request of Board of Trustees, analyze and compare bids and advise the Board of Trustees of all bids

submitted. A minimum of three (3) bids are required per contract renewal unless stipulated otherwise by the Board of Trustees. In terms of the renewal of the Management Company contract, the existing Management Company is excluded from the process due to conflict of interest. The Board of Trustees shall handle the process in its entirety.

As appropriate, the Board of Trustees may determine that the contract term for repetitive services, i.e., Landscaping and Management companies, can be extended without bidding if action is justified in terms of financial benefits to the Association. All such contracts shall include a "no cause" termination clause.

- i) The Property Manager shall provide administrative support (correspondence, mailings, etc.) to the Board of Trustees on all homeowner correspondence, inclusive of, but not limited to violation notices, communications, etc.
- j) The Property Manager shall function as the liaison between the Board of Trustees and service contract representatives.
- k) The Property Manager shall prepare and maintain an incident (homeowner or association complaints) log on landscaping services which shall include date, name of resident lodging incident, description of incident, and action taken.
- l) The Property Manager shall prepare and maintain an incoming homeowner correspondence log which shall include date, name and address of resident sending correspondence, topic of correspondence, and action taken.
- m) The Property Manager shall schedule the quarterly Board of Trustees' Community Open Meetings in addition to any other "Special" meetings that maybe required.
- n) The Property Manager shall attend all Board of Trustees' Community Open Meetings and "Special" meetings as deemed necessary by the Board of Trustees.
- o) The Property Manager shall represent the Board of Trustees at all Alternative Dispute Resolution meetings.

III. INSURANCE

- A. Location of Policies – The Association shall retain the original of all insurance policies whatsoever in place of safekeeping such as in a safe, a safety deposit box, or in the Manager's office.
- B. Notice of Change in Insurance Coverage – No change whatsoever in the coverage provisions, as to the risks covered, the ratio to value of coverage or endorsements by way of additions, deletions, or modifications may be affected by the Association without prior written notice to the Board of Trustees as regards required insurance.
- C. Qualifications of Insurance Carrier:
 - 1. The insurance carrier issuing required insurance shall have a financial rating by Bests' Insurance Report of BBB+ at a minimum.
 - 2. The insurance carrier issuing required insurance must be specifically authorized by laws of and licensed by the State of New Jersey to transact such business as required to provide the required insurance.
 - 3. The policyholder's rating of the insurance carrier issuing required insurance shall be "A" or better.
- D. Policy Provision as to Coverage, Amounts, and Endorsements.
 - 1. Property Insurance – A policy of property insurance in the amount equal to the full replacement value (*i.e.*, 100% of the current "replacement cost" exclusive of land, excavation, and other items normally excluded from coverage) of the common facilities owned by the Association (including all building service equipment and the like) with an "Agreed Amount Endorsement" or its equivalent, and, if economically feasible a "Demolition Endorsement" or its equivalent, and an "Increased Cost of Construction Endorsement" or "Contingent Liability from Operation of Building Laws Endorsement" or the equivalent. The Policy shall afford protection again at least the following:
 - a) Loss or damage by fire and other hazards covered by the standard extended coverage endorsement, debris removal, vandalism, malicious mischief, windstorm, and water damage, and
 - b) Such other risks as customarily covered with respect to projects similar in construction, location, and use.

2. Public Liability Insurance – A comprehensive general liability insurance policy covering the Association, including but not limited to endorsement for Blanket Contractual, Broad Form Property Damage, Additional Interest of Employees, Auto and Watercraft, Non-Ownership, Fire Damage, Legal Liability, Personal Injury and Advertiser's Liability, World-Wide Products, Incidental Malpractice, Host Liability, and Medical Payments, as may be applicable.

The public liability coverage at a minimum shall be structured as follows:

- a) A policy providing for \$100,000.00 coverage for each person and \$300,000.00 coverage for each occurrence shall be maintained in full force; and
 - b) \$50,000.00 property damage liability; and
 - c) A \$1,000,000.00 "umbrella" all-risk policy shall be maintained in full force covering, in addition to the above items, such other risks as are customary under all-risk policy with an insured's retained limit of no more than \$10,000.00 for coverage not insured by the underlying insurance.
3. Volunteers Accidental Insurance – The Board of Trustees may authorize the purchase of volunteer accidental insurance as appropriate.
 4. Personnel Coverage – Should the Association employ personnel, all coverage required by law, such as Worker's Compensation and Employers' Liability, shall be maintained in full force. A specific prohibition exists under this Agreement against the Board of Trustees "contracting" with any person who is not a bona fide independent contractor. The Board of Trustees shall obtain from each contractor his employer identification number, and where applicable, evidence of having a policy in force of general liability and property damage acceptable to the Board of Trustees.
 5. Insurance Provisions – In all cases as applied in paragraph 1, Property Insurance, above, and to the extent clearly applicable to paragraph 3, Personnel Coverage, the insurance obtained shall be subject to the following provisions and limitations:
 - a) The named insured shall be the Association who, through the Board of Trustees, acting as trustee for the owners collectively and severally, shall negotiate loss claims, receive and administer funds received pursuant to claim settlement.

- b) In no event shall the insurance coverage obtained and maintained pursuant to the requirements of this Agreement be brought into contribution with insurance purchased by the owners of the Living Units or Lots or their mortgages.
 - c) Such policies shall provide that coverage shall not be prejudiced by: (i) any act or negligence of the owners of Living Units or Lots, (ii) conditions over which the Association has no control.
 - d) All policies shall provide that coverage may not be canceled or substantially modified (including cancellation for nonpayment of premium) without prior notice to the insured.
 - e) All such policies shall contain a waiver of subrogation endorsement.
 - f) All policies of property insurance shall provide that, notwithstanding any provision thereof which give the carrier the right not to make a cash settlement in lieu of the right to restore; such option shall not be exercisable without the prior written approval of the Board of Trustees.
 - g) Each and every policy for required insurance shall contain a stipulation that the carrier received a copy of the Governing Documents, including this Agreement, and that all provisions of each and every policy issued are in conformance with the provision of said instruments as the carrier shall have been in possession of at the time of issuance of such policies.
6. Fidelity Insurance – The Board of Trustees shall be required to maintain adequate fidelity coverage to protect against loss of money through any fraudulent, dishonest acts on the part of the officers, directors, employees, or others who are responsible for handling funds of the Association. Such fidelity bonds shall meet the following requirements:
- a) All such fidelity bonds shall name the Association as an obligee.
 - b) In determining the amount of coverage, the Board of Trustees shall consider such factors as projected annual income reserve account balances, financial control procedures, and recommendations of its auditor.
 - c) Such fidelity bonds shall contain an endorsement affording coverage for non-compensated officers and directors.

- d) Such fidelity bonds shall provide that they may not be canceled or adversely modified (including cancellation for non-payment of premium) without at least fifteen (15) days' prior notice to the insured.

IV. RESERVE ACCOUNT

- A. The Board of Trustees shall maintain in a separate interest-bearing account, namely, Capital Reserve, an annual contribution equivalent to a minimum of three (3%) percent of assessment income for the year unless an engineer study is conducted disclosing a greater amount. This engineer study shall be based on the cost of replacement or divided by the life of each major capital improvement owned by the Association.

References:

Legal Reference – N.J.A.C. 5:26-8.7

Heatherwood's Capital Reserve Report dated May 15, 2008.

- B. Withdrawals:

- 1. Withdrawals from the Capital Reserve Account shall be authorized by a two-thirds (2/3) vote of the Board of Trustees.
- 2. Withdrawals from the Capital Reserve Account may only be used for restoration, repair, and replacement of existing capital improvements, not for new facilities or additions or improvements to existing facilities or property.
- 3. The Board of Trustees may borrow against the Capital Reserve Account for current operations, providing such loans are repaid to the Capital Reserve Account within two (2) years.

V. RECORDKEEPING

The following recordkeeping shall be maintained as follows:

- 1. Book of Resolutions – All resolutions passed by the Board of Trustees shall be maintained in chronological order in a binder by the Secretary of the Board of Trustees.
- 2. Annual Report – Each year, an Annual Report consisting of an itemized listing of all resolutions passed by the Board of Trustees shall be created

and maintained by the Board of Trustees' Secretary. The Board of Trustees shall comply with required notification to homeowners of said report. Refer to Exhibit C – Bylaws – Article VII - Section 2C.

3. Open Meeting Minutes – Minutes of Heatherwood's Open Community Meetings shall be recorded by the Board of Trustees' Secretary and maintained by the Management Office in chronological order in a binder.
4. Board of Trustees Work Session Notes – Notes of the Board of Trustees Work Sessions shall be recorded by the Board of Trustees' Secretary and maintained by the Secretary in chronological order in a binder.

VI. AMENDMENTS

- A. Amendment to this Document shall be valid only when:
 1. A two-thirds (2/3) vote of the Board of Trustees has affirmatively agreed to the proposed Amendment.
 2. Prior notice of the proposed Amendment has been given to all owners.
 3. The amendment has been recorded.