

	<b>Policy Name: Excessive/Luxury Expenditure Policy</b>
	Section Name (if applicable):
	Department Owner: Executive
Document Type: Policy: Board Approved	Document Owner: Chief Financial Officer / Chief Risk Officer
Policy Number: TBD	Author(s): Chief Financial Officer / Chief Risk Officer
Approved by: Board of Directors	Approved Date: 08/29/2024

**I. PURPOSE STATEMENT**

This Excessive/Luxury Expenditure Policy establishes the Credit Union's parameters and internal controls governing the expenditures of Orange County's Credit Union. All Credit Union expenditures should be customary, prudent, consistent with applicable laws and regulations, and reasonably related to the Organization's business objectives and needs.

The purpose of this policy is to assist with identifying expenditures that are excessive or luxury expenditures and to create processes that are reasonably designed to eliminate such expenditures, while establishing accountability for compliance.

This policy applies to all Credit Union Associates, Officers, and Directors with regard to any expenditure of the Credit Union. In making any expenditure on behalf of the Credit Union; Associates, Officers, and the Board of Directors should consider whether the expenditure is an excessive or luxury expense that is prohibited under this policy. By adopting this policy, the Credit Union is seeking to enhance best practices, establish better decision-making on expenditures, and comply with applicable laws and regulations across the organization that pertain to this policy.

**II. POLICY STATEMENT**

Routine operating expenses, capital expenditures, and other reasonable expenses are not prohibited by this policy. The Credit Union has the authority to provide compensation and benefits that are reasonable. This policy establishes a prohibition on expenditures that are classified as excessive or luxury as required by the Department of the Treasury's Emergency Capital Investment Program regulations (31 CFR Part 35), and as may be required by other statutes and regulations.

***Excessive-Luxury Expenditures***

"Excessive or luxury expenditures" means excessive expenditures on any of the following to the extent that such expenditures are not reasonable or appropriate expenditures for business development, staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of the Credit Union's business operations (also listed under VI. Appendix):

**ENTERTAINMENT OR EVENTS**

This category includes fees, dues, tickets costs related to social, athletic, artistic and dining clubs, activities, celebrations or other events, and similar expenditures. Expenditures for charitable contributions and charitable events are exempt from this policy. Entertainment or events expenditures in an amount less than \$200,000 per instance are exempt from this policy.

**OFFICE OR FACILITY RENOVATIONS**

This category includes costs and allowances for luxury office renovations, including expenditures related to furniture, art, office personalization, interior finishing, design and decoration, and similar expenditures. Luxury office and facility renovations expenditures in an amount less than \$100,000

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are exempt from this policy. Expenditures on office or facility renovations that are necessary due to safety reasons, excessive wear and tear, or to continue to deliver services to customers are exempt from this policy.

### **TRANSPORTATION SERVICES**

This category includes charter fees, tickets, slip or docking fees, vehicle installment payments, reservation and travel agent expenses, and similar expenditures associated with transportation services (e.g., airline, train, rental cars, or vans). Mileage reimbursable according to current Internal Revenue Service mileage rates is exempt from this policy. Transportation services in an amount less than \$25,000 per instance are exempt from this policy.

The Chief Executive Officer may establish or delegate to an appropriate executive officer the authority to establish processes for reimbursement of reasonable travel expenditures, which processes must be reviewed by executive management no less frequently than annually.

### **TAX GROSS UPS**

This category includes any reimbursement of taxes owed with respect to any compensation. The Credit Union shall comply with all federal and state rules and regulations related to tax gross-ups, as applicable. This category does not apply to tax equalization agreements for Associates subject to tax from a non-U.S. jurisdiction.

### **MISCELLANEOUS EXPENSES REASONABLY INCURRED**

Other similar items, activities, or events for which the Credit Union may reasonably anticipate incurring expenses, or reimbursing an Associate for incurring expenses, in an amount less than \$100,000 per instance are exempt from this policy. Reasonable capital investments in technology, equipment, and similar items that expand the long-term capability of the Credit Union as an ECIP recipient to provide products and services to its customers and community are not excessive or luxury expenditures.

The Chief Executive Officer may establish or delegate to an appropriate executive officer the authority to establish processes for the evaluation and approval of expenditures in the preceding categories that are not luxury or excessive expenditures and/or that are not otherwise exempt from this policy.

### **CERTIFICATION**

The officers will be certifying that (i) the Organization is in compliance with this policy and (ii) the approval of any expenditure requiring the prior approval of any senior executive officer, any executive officer of a substantially similar level of responsibility, or the board of directors (or volunteer committee of such board or other volunteer oversight committees as applicable), was properly obtained with respect to each such expenditure.

### **VIOLATION**

Any exception or violation of this policy must be promptly reported to the Credit Union's (i) Chief Executive Officer, (ii) Chief Risk Officer who is primarily responsible for the Organization's compliance function, or (iii) Human Resources or (iv) Enterprise Risk Management. All Associates, Officers, and Directors of the Credit Union must adhere to this policy and will be held accountable for compliance. Any Associate or Officer who violates this policy may be subject to disciplinary action up to and including termination of employment. Any Associate or Officer that is aware of any circumstance that may indicate a violation of this policy is required to report such circumstance to their supervisor or the Credit Union's Chief Risk Officer or Enterprise Risk Management.

Alternatively, Associates and Officers may raise concerns, or report instances of non-compliance with this policy and/or any of the existing underlying relevant policies by contacting the Credit Union Ethics Hotline at (855) 650-0005 or reports@lighthouse-services.com. The Credit Union prohibits retaliation against any Associate or Officer for making a good faith report of actual or suspected violations of the Credit Union's code of conduct, laws, regulations, or other Credit Union policies, including this policy. A finding of retaliation against any such Associate or Officer may result in disciplinary action up to and including termination. Failure to promptly report known violations by others may also be deemed a violation of the Credit Union's code of conduct. Associates and Officers may submit questions about this policy to the Chief Marketing and Retail Officer. Questions received from Members will be forwarded to the Chief Marketing and Retail Officer.

- Oversight
  - The Board shall review this policy no less frequently than annually.
- Monitoring
  - Excessive and luxury expenditures will be properly identified and summary data on excessive or luxury expenditures will be reported to the applicable volunteer oversight committee by the Chief Financial Officer as part of the compliance review of this policy. These processes will be reviewed by the responsible parties as noted below (Section III: Policy Responsibilities and Delegations), no less frequently than annually. Expenditures that are in excess of the thresholds set in this policy may be approved in advance of the Chief Financial Officer as exceptions. Exceptions and violations must be reported to the applicable oversight committee no less frequently than annually, or more frequently as the nature and severity of violation may warrant.
- Reporting
  - On an annual basis, the Credit Union will deliver to the Department of the Treasury a certification, executed by two senior executive officers (one of which must be either the Credit Union's Chief Executive Officer or Chief Financial Officer).
  - The Credit Union will submit certification through the appropriate platform and format as may be required from the Department of the Treasury.
- Risk Appetite and Tolerance
  - *Risk Appetite*: In terms of excessive and luxury expenditures, the Credit Union has a low appetite for risk. The Credit Union recognizes it is not possible or necessarily desirable to eliminate all risk inherent in staff development, performance incentives, or similar business operations, but must balance that with the goal of receiving and maintaining ECIP certification.
  - *Risk Tolerance*: In terms of excessive and luxury expenditures, the Credit Union has a low tolerance for risk. Per instance and annual expenditures should not exceed the limits as stated in this policy unless they qualify as exempt.

### III. RESPONSIBILITIES AND DELEGATIONS OF AUTHORITY

#### Responsibilities

The responsibilities as it relates to this policy include:

Board of Directors is responsible for the approval of this Policy.

Chief Risk Officer and/or Human Resources is responsible for monitoring compliance with this Policy as it relates to the reporting of violations and exceptions.

Accounting is responsible for monitoring compliance with this Policy as it relates to the tracking of luxury and excessive expenditures.

Enterprise Risk Management is responsible for the central management, administration and timely refresh of this Policy.

Chief Financial Officer owns the process, is responsible for business strategic direction, and maintains decision-making authority as it relates to this Policy.

Chief Executive Officer and/or the Chief Financial Officer is responsible for the certification of this policy.

Chief Financial Officer has ownership rights and responsibilities in the development and revisions of this Policy.

Chief Marketing and Retail Officer is responsible for addressing Associate and Member questions relating to this policy.

**Delegations of Authority**

This Excessive-Luxury Expenditure Policy establishes and delegates the approval of this Policy as follows:

Policy Document	Board	Management Committee	Management
Excessive-Luxury Expenditure Policy	X		

**IV. KEY TERMS**

For the purposes of this policy:

- Excessive Expenditure:** As defined by the Treasury in Title 31 CRF § 35.21, the term "excessive expenditures" signifies unnecessary expenses made in the below categories that are not reasonable expenses for staff development, reasonable performance incentives, or regular business operations: entertainment or events; office and facility renovations; aviation or other transportation services; tax gross-ups (i.e., reimbursement of taxes owed with respect to any compensation); and other similar items, activities, or events for which the ECIP recipient may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.
- ECIP:** This term is a shorthand for the Emergency Capital Investment Program. This program provides funding for certified Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to provide loans, grants, forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities. The program is intended to support low to moderate income communities, minority communities, rural communities, underserved areas, consumers, small businesses, and nonprofit organizations.

**V. POLICY OWNERSHIP**

R = Responsible	A = Accountable	C = Consult	I = Inform
Chief Financial Officer, Chief Risk Officer, or delegate	Board of Directors	Volunteer Oversight Committee, Enterprise Risk	All Associates

		Management, Executive Management Team	
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- *Responsible:* Document Owner responsible for the document for content accuracy and timely refresh (AVP and above or delegated Associate)
- *Accountable:* Executive Management Team responsible over the business area
- *Consult:* Other departments and support partners impacted by and contributing to the policy document
- *Inform:* Departments and associates that should be aware of the policy existence and status

**VI. APPENDIX**

Excessive and Luxury Expenditure Categories and Thresholds Chart

Category	Examples	Excessive/Luxury Threshold
Entertainment or Events	<p>Fees, dues, tickets costs related to social, athletic, artistic and dining clubs, activities, celebrations or other events, and similar expenditures.</p> <p>Expenditures for charitable contributions and charitable events are not prohibited under this policy.</p>	\$200,000 per instance
Office or Facility Renovations	<p>Costs and allowances for luxury office renovations, including expenditures related to furniture, art, office personalization, interior finishing, design and decoration, and similar expenditures.</p> <p>Expenditures on office or facility renovations that are necessary due to safety reasons, excessive wear and tear, or to continue to deliver services to Members are exempt from this policy.</p>	\$100,000 per instance
Transportation Services	<p>Charter fees, tickets, slip or docking fees, vehicle installment payments, reservation and travel agent expenses, and similar expenditures associated with transportation services (e.g., airline, train, rental cars, or vans).</p> <p>Mileage reimbursable according to current Internal Revenue Service mileage rates is exempt from this policy</p>	\$10,000 per instance

Miscellaneous Expenses Reasonably Incurred	Other similar items, activities, or events for which the ECIP recipient may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.	\$100,000 per instance
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END OF POLICY