COAKLEY BAY ASSOCIATION
Internal Financial Control Policies

Adopted August 15, 2011

It is the intention of this Summary of Internal Financial Control Policies to comply with the requirements provided for by Article VI, #5 of the amended and Restated By-Laws of January 29, 2011, (the "By-Laws"), at Line 622, et seq. This Summary of Internal Financial Control Policies is not intended to conflict with any of the other provision of the By-Laws, and in the event of conflict between these financial control policies and the By-Laws, the By-Laws shall control.

General Policies

Transparency and Responsibility. The Manager, bookkeeper, accountant, Officers and members of the Board of Directors 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 the Association's financial dealings, and to assure Board knowledge of all major expenditures. The Treasurer, the President, the other members of the Board of Directors, the Manager, the bookkeeper and any other person who exercises any amount of control over the funds of the Association shall be considered custodians of the funds and shall act as fiduciaries. Any and all acts by any such persons which affects the funds of the Association shall be in the best interest of the Coakley Bay Owners and the Association.

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. As provided in the By-Laws, an Audit Committee shall be appointed, consisting of three Unit Owners who may, but need not be members of the Board, to monitor compliance with these controls and procedures and review the financial reporting to the Board of Directors to assure that it accurately and consistently portrays the Association's financial position. The Treasurer shall not be a member of the Audit Committee. This committee chairperson shall report directly to the Board of Directors and to the Unit Owners at the annual Condominium Unit Owners meeting as provided in the By-Laws.

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 insurance; reserve for capital improvements; operations.

The classifications set forth above shall be made in the Association's records and the records and shall be kept current.

The Board may, but is not required to, segregate the funds into separate bank accounts. (See full text in the By-Laws, Line 691.)

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Insurance Fund: The Board of Directors shall clearly identify the portion of the monthly assessment collected for the purchase of insurance, and clearly identify the cost of insurance purchased each year. The Board shall also identify the amount of the Insurance Fund held in reserve for property losses not covered by insurance. Any excess revenues collected for insurance shall remain in the Insurance Fund at the end of each calendar year. Funds shall not be utilized for any purpose other than that which was identified at the time of the assessment as provided in the By-Laws (Line 703, et seq.). Whenever practical, the Insurance Fund shall be deposited into one or more designated interest bearing accounts or instruments at an on-island FDIC insured financial institution, not to exceed the federally insured limit.

Audit committee, Board, and bookkeeper roles. Recognizing that the functions of the bookkeeper are the carrying out the responsibilities of the Treasurer as provided in the By-Laws, the bookkeeper shall cooperate with and provide requested information to the Treasurer and the Audit Committee chairperson. The bookkeeper shall work under the direction of the Treasurer and shall at all times provide the Treasurer with any and all information and documentation available to the bookkeeper. The Treasurer shall have access to and receive copies of all financial and payroll records the Treasurer requests. The Treasurer shall direct the procedures for the custody of deposits of the Association.

Depositories

General. The depositories of the Association shall be federally insured institutions designated from time to time by the Board and in which the monies of the Association shall be deposited **in the name of Coakley Bay Association.** *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,* ***as provided in our By-Laws (Line 703, et seq.), shall not be utilized for any purpose other than that which was identified at the time of the assessment.***

Debit card and other accounts. All bank, debit card or other accounts must be in the name of the Coakley Bay Association. The Manager may be a cardholder with spending authority limited by other policies regarding large expenditures. The Manager shall be a signatory on the Association's general operating checking account but not any other account, such as savings accounts and certificates of deposit.

The debit card account shall be replenished each month to maintain a balance of $10,000.00. The check amount to replenish the account shall be in the actual amount for the debits noted on the statement for the previous month for the purpose of clarity for future reference, such that the debits expended and the check amount credited will be equal on each monthly statement.

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Investment and reserve account depository criteria:

- The account must be controlled to prohibit on-line withdrawals or transfers by a single individual.
- The Association requires two signatures for withdrawals or transfers, regardless of the amount (e.g., check writing, or wire transfers with 2 signature requirement).
- All funds must be subject to FDIC insurance.
- Efforts shall be made to provide for maximizing interest earned on accounts.
- Preference for banks with a local contact or representative and an institution where account maintenance fees are low or non-existent.

Segregation of Accounting Duties

Second signatures. Two authorized signatures are required on all checks, wire transfers or electronic funds transfers and transfers between the Association's accounts. Whenever possible the Treasurer shall provide the second signature. Wire transfers or electronic funds transfers shall never be used ***except*** for the Association's obligations to the U.S. Treasury, recurring periodic loan payments, transfers between Coakley Bay Association accounts, and, if such a program is in place, payroll direct deposits.

All checks issued to transfer funds from one Coakley Bay Association account to another shall be payable to "Coakley Bay Association" and shall have an endorsement, "Deposit to Coakley Bay Association Account," prior to being presented to any signatory for signature.

Signatory as payee. Checks payable to the Manager, or any other person authorized as an account signatory, must be signed by authorized signatories other than the payee.

Check log. The Treasurer will keep a log of all checks over $2,500 and report those to the Board and the Audit Committee monthly. The bookkeeper shall provide to the Board of Directors at each regular Board meeting a printout of all scanned checks of $2,500 or more. If either of the two back-up signatories signs a check over $2,500, they must communicate that to the Treasurer, so the check can be added to the Treasurer's check log.

Review of bank statements. The Treasurer or the Audit Committee shall review each bank statement (including investment, debit card and credit card accounts) prior to reconciliation. The Treasurer will describe in writing to the Audit committee the process for facilitating this review.

Administrative access to accounting system. The bookkeeper and two non-signatory members of the Board of Directors each shall be provided with a separate administrative password for Coakley Bay accounting programs, provided the software contains such feature. The Board members are to report access requests, their origin, date and purpose, to the Board at the meeting following the request and shall also notify the Board President and Treasurer by email at the time of the access request, detailing date and purpose. *(Resolution of the Board at meeting of April 4, 2011.)*

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The bookkeeper shall keep a log of each time the administrative password is used and a written report shall be made by the bookkeeper at each meeting of the Board of Directors detailing each time the administrative password was used and the purpose for the access.

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

Third party oversight. Outside accounting oversight shall 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 Treasurer and Audit Committee.

Internal reporting. The bookkeeper, the Treasurer, the Manager, a member or members of the Audit Committee and the outside accountant shall alert each other immediately if there are serious concerns about specific financial activities or transactions. Although email shall not be the sole means of notification, each of the foregoing individuals should keep and maintain the current email addresses of the others to facilitate prompt notification.

Segregation of purchasing duties

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

Limitation on individual Board member's purchasing authority. Except for the President under the President's authority as the CEO of the Association acting within the Association's Rules and Financial Controls, no individual Board member is to direct the issuance of any check to the manager, any vendor, any supplier or any consultant. If a Board member considers it critical that a check be written outside of normal processes, and for some reason the President cannot be reached, an emergency phone conference with the Vice-President and at least 4 additional board members must be held. If the Vice-President cannot be reached, the Secretary will take his or her place.

Accuracy of Financial Information

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 shall never intentionally miscoded so that spending appears to fit within budget categories. This is necessary to assure accuracy if the financial reports that the Board relies on for its budgeting and other financial decisions.

Fixed assets. Equipment or other assets with a cost in excess of $2,500 and a useful life of 5 years or more shall be capitalized as fixed assets and depreciated.

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Expenditure controls

Personnel. The addition of new personnel, whether additional personnel or replacement due to termination of an employee, requires Board of Directors approval. Once approved, for any personnel who will answer to the Manager, the selection of the individual to fill the position shall be exclusively the Manager's decision.

Budget overruns. The Manager shall notify the President and the Treasurer in cases where any budget line item is projected to be in excess of 10% over budget.

As provided in Article VI, #8 of the By-Laws, Line 696, et seq, "The Board shall not be obligated to expend all of the revenues collected in any accounting period, . . ." Any amounts budgeted but not expended shall be assigned to the reserve for the fund in which the expense was originally budgeted.

Prior review of large expenses. For any contract or non-recurring expense, that has not already been specifically approved by the Board and is in excess of $1,000.00, ***except for*** emergencies or time sensitive, infrastructure events or situations which require immediate attention, the President and the Treasurer shall be informed prior to incurring the expense or signing the contract and the Board of Directors shall consider approval of these expenses before they are incurred. Examples of such large items requiring prior approval include, but are not limited to, office equipment, furniture, refrigerators, ranges, tile, kitchen and bathroom equipment and fixtures for restoration of any rental unit

Purchases of items which may not be frequent, but are nevertheless at least semi-routine, such as supplies, paint, pumps, lumber, sheetrock and other building or maintenance materials and related equipment, which are within the budget and less than $2,500.00 may be incurred by the General Manager.

The General Manager shall notify the President and the Treasurer prior to making a commitment to spend, any single purchase which is 10% or more than the budget line item.

If the purchase is for a rental unit, then a cost analysis along with a projected rental amount shall be presented to the Board of Directors to allow discussion of the feasibility of recouping Association expenses.

Inventory: The General Manager shall maintain an inventory of all assets on the premises. All future purchases shall be added to the inventory. As the assets are requisitioned they will be deducted from the inventory on hand. The Manager will provide to the Board of Directors an annual inventory of assets on premises no later than January 10th of each year for supplies on the premises as of December 31st. And shall be made available to the Owners at the Annual Meeting. In addition to the inventory, the Manager will make at least one addition spot check, at approximately 6 months after the inventory, of the inventoried assets actually on premises to compare with the inventory list. Employees shall maintain security for all Association property throughout the day and after hours to prevent loss of Association property. Conservation of supplies, resources and loss retention shall be emphasized.

Reserve maintenance and replacement study. A 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 By-Laws and the auditor.

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Contractors. It is the policy of the Association that all contractors providing services to the Association, other than sole proprietors, 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.

Best value purchasing. It is the responsibility of the Manager, the Board, and others who make purchasing decisions to obtain the best value for the Association in all purchasing decisions, regardless of size. "Best value" should include consideration of price, quality, and appropriateness for the Association among other factors. Obtaining the best value may at times also require the use of stateside suppliers and the purchase of materials separate from a contract for services.

a) At least three competitive bids must be obtained for any purchase or service contract with an estimated cost of $10,000.00 or more. The Board may by resolution waive this requirement for a specific purchase if the Board determines that competitive bids for the specific purchase would be impractical or disadvantageous for the Association .

b) At its option, the Board may require competitive bids for a specific purchase or service contract with an estimated cost under $10,000.00, if the Board determines that competitive bids for that specific purchase would be feasible and advantageous in obtaining the best value for the Association.

When competitive bids have been solicited, the Manager shall make a recommendation to the Board President, and shall obtain the President's approval for the bid selected. The Board President may delegate the responsibility for review and approval of the selected bid to a committee of Board members or to the entire Board for approval by resolution.

Related Management Policies

Withholding of information not allowed without Board approval. No Manager or Board member will direct any staff person, consultant or accountant to withhold ANY information from an individual Board member seeking information in their capacity as a Board member or from the Board. This is not limited to financial information. The Manager shall instruct the employees to report to the Manager any perceived violations of the Rules and Regulations and these Financial Control Policies. There will be no efforts by any management official or Board member to control or restrict the flow of information, criticisms, complaints or other communications from Owners, staff, consultants or accountants to the Board or individual Board members. If anyone is asked for information

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and wishes to withhold it based on the sensitivity of contents or volume, a written notification must be made immediately to the Board, which shall be reviewed and a vote taken.

ADDENDUM: Conflict of Interest Policy

Attached to, and made a part of these Financial Control Policies is Coakley Bay's Conflict of Interest Policy signed on August 2, 2009.

ADOPTED by the Board of Directors this the 15 day of August, 2011.

Raymond C. Loomis, Jr., President

Patrice Kelley, Treasurer

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