

Palmetto Dunes Property Owners Association, Inc.
Statement and Description of Funds

Preface

The Palmetto Dunes Property Owners Association has 5 different types of funds to support various financial needs in the community. Each fund has a unique purpose and funding mechanism. The following provides a description, purpose and use of these funds.

Repair and Replacement

Authority:

The Board of Directors has the responsibility to plan for the proper maintenance, repair and replacement of the Association common property elements. The members have the responsibility to fund, via the annual dues' assessment, the proper care of common property elements. In order to properly maintain the common area, protect, to the extent possible, market value of members' homes and the safety and livability in the community, the Board of Directors establishes a policy and recommends funding for future repair and replacement.

Reserve Study Defined:

The Board shall have a Reserve Study performed that includes the following criteria.

- 1) Identifies all common area components that are the homeowner association's responsibility to repair or replace that has a useful life of 3 to 30 years.
- 2) Assigns a reasonable cost of repair or replacement to each common area component based on current costs for the local area.
- 3) Assigns a reasonable useful life to each common area component based on local weathers conditions and use.
- 4) Lays out a 30 Year Repair & Replacement Schedule which identifies the years when each common area component of work will be performed including cost adjusted for forecasted inflation.
- 5) Establishes a 30 Year Funding Plan which takes into consideration the costs of repairs and replacements, contributions from members, impact of inflation, revenue generated from invested reserve funds and taxes owing on investments income. The Funding Plan shall include contributions from members adequate to meet projected costs without the need for special assessments. The Funding Plan shall include a "Percent Funded" factor. The Percent Funded will be consistent with industry standards, the age and condition of the assets owned to be reconsidered on a continuing basis. Typically, Percent Funding will range between 60% and 75% of replacement and repair cost but could vary depending on the aforementioned considerations. The goal for PDPOA is to have the repair and replacement fund reach 70% funded by 2035.

Permitted Uses of Funds:

Repair and Replacement established reserve funds are to be used only for the repair and replacement of the specific common area components identified in the Reserve Study.

Annual Review & Revision:

The Board shall review and revise the Reserve Study annually to reflect changes in costs, inflation, and interest yield on invested funds. Common area component information shall be amended to reflect new information received and common area component additions or deletions. With this revised information, a revised 30 Year Reserve Study projection shall be generated and used in conjunction with the Annual Budget process.

Borrowing R&R Funds:

Only under special circumstances and with Finance Committee and Board approval, like an unanticipated shortfall or an emergency, the Association may transfer or borrow temporarily from the R&R fund. If funds are loaned the Finance Committee and Board shall adhere to a repayment plan within a reasonable time period without any interest payments.

Investment of Funds:

In order to mitigate the amount of member contributions, the Board shall invest reserve funds to generate investment revenue that will be added to the reserve account balance. Unless otherwise approved by the Board, all investments will be in accordance with the PDPOA’s Financial Policy and Procedures Manual. Investments should take into consideration the repair and replacement schedule so that there is no loss from investments for early withdrawal or sale. The Finance Committee’s Investment Sub-committee shall review the reserve fund investment plan at least annually to ensure that the funds are receiving competitive yields on a risk adjusted basis and make prudent adjustments as needed.

Storm Reserve Fund

Authority:

The 2004 Amendment to the Covenants created this fund and the ability of the association to assess property owners to contribute to this fund both before and after a natural disaster. The Board began assessing property owners in 2005 and followed the below schedule. The Storm Reserve Fund is intended, and its use is limited, to cover unbudgeted and unexpected expenses as a result of a storm or other natural disaster. Once the Storm Reserve Fund achieves a level of Two Million (\$2,000,000.00) Dollars in collected member assessments, the right to assess for this Storm Reserve Fund shall cease until such time as the Storm Reserve Fund falls under such a level.

2005	\$150 per owner	\$325,950
2006	\$150 per owner	\$325,950
2007	\$150 per owner	\$325,950
2008	\$150 per owner	\$325,950
2009	\$75 per owner	\$162,975
2010	\$75 per owner	\$162,975
2011	\$50 per owner	\$108,650
2012	\$50 per owner	\$108,650
2012	Transfer from Op.	<u>\$152,950</u>
		\$2,000,000

Definition:

This fund was established for the purpose of having funds available to clean up and remove debris and trees, repair and replace damaged infrastructure, and otherwise recover from extraordinary wind, rain, flooding, hail or other damage resulting from or as a result of a natural disaster, or Act of God including but not limited to an earthquake, hurricane, tropical storm, or cyclone.

Permitted Uses of Funds:

Storm Reserve Funds are to be used only for the recovery from any type of natural disaster and to pay down the line of credit and associated term loan should the association borrow additional funds should the Storm Reserve funds be insufficient. These Storm Reserve funds are to be placed in a separate account and are to be used exclusively for the purposes as specifically set forth above. To replenish the Storm Reserve Fund after such a natural disaster, the Storm Reserve Assessment may be reinstated in the following calendar year until such Storm Reserve Fund has been built back to the aforementioned level, as adjusted by the Consumer Price Index.

Borrowing of Funds:

Transfers and/or loans to other association fund accounts are not allowed to be made from Storm Reserve Funds.

Investment of Funds:

In order to mitigate the amount of member contributions, the Board shall invest reserve funds to generate investment revenue that will be added to the reserve account balance. Unless otherwise approved by the Board, all investments will be in accordance with the PDPOA’s Financial Policy and Procedures Manual. Investments should take into consideration the unanticipated need to get access to these funds in the event of a disaster. The Finance Committee’s Investment Sub-committee shall review the reserve fund investment plan at least annually to ensure that the funds are receiving competitive yields on a risk adjusted basis and make prudent adjustments as needed.

Community Enhancement Fund

Authority:

The 2006 Amendment to the Covenants granted the authority to the association to assess a special fee on all property transfers within Palmetto Dunes. In order to provide an additional source of funds the amendment established and assessed a special Community Enhancement Fee to be paid upon the transfer of title to each residential property. The Community Enhancement Fee shall not exceed 0.5% of the gross selling price. Currently the Board has in place a 0.50% Community Enhancement Fee.

Definition:

The communities’ general assessments generally provide for some capital improvements each year. However, many improvement projects represent deferred maintenance (such as street paving) and others are not so readily visible (replacements of tidal gates). Funds are also set aside for Repair and Replacement Reserves (see discussion above). While some new enhancements have been made, it was projected that typical annual assessments would not permit major new improvements which would enhance the overall appearance, safety and functionality of Palmetto Dunes. This Community Enhancement Fee is intended to address

those needs. The collected funds are placed in a segregated account and used for new improvements, renovations, replacements, and beautification programs that do not constitute repairs and replacement of existing common area elements.

Permitted Uses of Funds:

The Community Enhancement fee shall be placed in a segregated account and used to provide funding for activities and such other purposes as the Association from time to time deems beneficial for the general good and welfare of Palmetto Dunes. However, the Community Enhancement Fee shall not be used to fund normal and routine day-to-day operations and /or repairs and replacements or common area maintenance. For example, the Community Enhancement Fee funds may be used for:

- 1) Construction, renovations and projects for the enhancement, beautification and preservation of Palmetto Dunes; and
- 2) The construction of new capital improvements or the renovation, replacement, rehabilitation, or emergency repair (if such emergency repair is necessitated by reason of storm, fire, flood, hail, natural disaster or Act of God but only to the extent not covered by insurance or the Storm Reserve Fund) of existing facilities or capital improvements within Palmetto Dunes.

Any expenditure from CEF can only be with collected funds. In other words projects approved for the following year cannot exceed the amount of funds in the CEF Fund as of the last day of the prior calendar year. Funds collected from prior years that were never used (accumulated CEF funds) or were not set aside for a specific planned future project can also be used for the following years approved projects. This strategy would better align and limit project budgets with the special revenue source of CEF funds and eliminate any shortfall in CEF Funds.

Borrowing of Funds:

Transfers and/or loans to other association fund accounts are not allowed to be made from CEF Funds.

Investment of Funds

In order to mitigate the amount of member contributions, the Board shall invest reserve funds to generate investment revenue that will be added to the reserve account balance. Unless otherwise approved by the Board, all investments will be in accordance with the PDPOA's Financial Policy and Procedures Manual. Investments should take into consideration the schedule of enhancements so that there is no loss from investments for early withdrawal or sale. The Finance Committee's Investment Sub-committee shall review the reserve fund investment plan at least annually to ensure that the funds are receiving competitive yields on a risk adjusted basis and make prudent adjustments as needed.

General Fund

Authority:

The Board of Directors at the recommendation of the Finance Committee established this fund.

Definition:

The General Fund is funded primarily by the excess of operating revenues over expenses that have been generated from operations over the years. At the April 23, 2013 Finance Committee meeting, the Committee recommended that a minimum balance equal to one year's annual residential/commercial assessment be maintained in the General Fund. The General Fund is fully funded when the ending balance equals the total of the residential and commercial assessments. This protective reserve was established to sustain ongoing operations in the event of major damage to the property, interruption of the collection of revenues or another unforeseen occurrence. This reserve is not intended to diminish or deny the rights of the Finance Committee or the Board of Directors to use the funds for other proper and authorized purposes it deems important. See further explanation of these Special Working Capital Reserves carried over from year to year in the Operating Fund section of this Statement of Funds.

Permitted Uses of Funds:

This fund can be used for all association purposes to include supporting operating short falls, short falls in other reserve funds and any other Board approved projects. At times some of these funds may be restricted or reserved by the Board for future projects.

Borrowing of Funds:

Only under specified circumstances and with Finance Committee and Board approval, the Association may transfer or borrow temporarily from the General Fund. If funds are loaned, the Finance Committee and Board must develop a payment plan to replenish the General Fund. No interest payments will be charged.

Investment of Funds

To mitigate the amount of member contributions, the Board shall invest the General Fund amounts to generate interest revenue that will be added to the General Fund account. Unless otherwise approved by the Board, all investments will be in accordance with the PDPOA's Financial Policy and Procedures Manual. Investments should take into consideration the expected cash flows from operations for the year. The Finance Committee's Investment Subcommittee shall review the General Fund investment plan at least annually to ensure that the funds are receiving competitive yields and make prudent adjustments as needed.

Operating Fund

Authority:

The Covenants require that the Association provide a permanent fund to provide services important to the development and preservation of an attractive community appearance and further, to maintain the privacy, security and general safety of the residential communities in Palmetto Dunes.

Definition:

The Operating Fund is used to cover the day to day operations of the community. The bulk of Operating Funds are collected early in the fiscal year for use during the remainder of the year. Therefore, amounts are available to be invested during much of the operating year exceeding normal month to month working capital requirements. In addition, a portion of the Operating Fund is determined to represent Special Working Capital Reserves retained for supporting operations in the event of an unexpected shortfall in revenue collection in subsequent years due to macroeconomic difficulties and/or to supplement special capital projects and unique expenses. As such these reserves may be carried over from year to year as additions to the General Fund.

Permitted Uses of Funds:

This fund can be used for all association purposes. At the end of each calendar year the Finance Committee will review the balances in this fund and decide if any transfers should be made

Borrowing of Funds:

Only under specified circumstances and with Finance Committee and Board approval, the Association may transfer or borrow temporarily from the Operating Fund. If funds are loaned the Finance Committee and Board shall adhere to a repayment plan within a reasonable period without any interest payments.

Investment of Funds

To mitigate the amount of member contributions, the Board shall invest the Operating Fund amounts to generate interest revenue that will be added to the Operating Fund account. Unless otherwise approved by the Board, all investments will be in accordance with the PDPOA's Financial Policy and Procedures Manual. Investments should take into consideration the expected cash flows from operations for the year. The Finance Committee's Investment Subcommittee shall review the General Fund investment plan at least annually to ensure that the funds are receiving competitive yields and make prudent adjustments as needed.

Approved by the Finance Committee – October 18, 2011

Amended by the Finance Committee – September 15, 2020