

**PADRE ISLES PROPERTY OWNERS
ASSOCIATION, INC.**

BOARD POLICY MANUAL

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Provisions Concerning the Board

Article 1 Public Discussion at Board of Directors Meeting

[Formerly Statement 11 Adopted March 25, 2003]

1.01. The Board believes that residents and owners of property in Padre Isles should be active in POA activities, and encourages attendance at board and committee meetings. At such meetings everyone should have an opportunity to voice opinions or complaints, but should be limited in the time allowed.

1.02. The Board will allow three minutes for each individual to present opinions or complaints to the Board of Directors at Board meetings.

Article 2 Issue Consideration Time

[Formerly Statement 20 Adopted September 30, 2008]

2.01. Issues that are controversial or may impact other policies, covenants or long held practices must be given sufficient time for review before a vote for implementation.

2.02. The issues stated above will be given sufficient time (a minimum of one month) for POA Board Members to consider all sides of the subject before a vote is taken.

Article 3 Board and Committees -- Attendance

[Formerly Statement 2 Adopted October 22, 2002]

3.01. Board and Committee meetings are held monthly, and rarely last for more than two hours. The business discussed at each meeting generally relates to current situations and decisions affecting the community. Members of the Board and Committees represent all of the owners of Padre Isles, and input from members is necessary for deliberations.

3.02. If a Board or Committee Member misses 3 consecutive, or four of six meetings, the Board may, but is not required, to ask for the resignation of the Member.

Article 4 Board Vacancies

[Formerly Statement 3 Adopted September 24, 2002]

4.01. Section 2.03 of the Bylaws (Section 2 – Vacancies and Removal of Directors) states that “Upon the death, removal, resignation or incapacity of any member of the Board, a majority of the then remaining directors shall elect his successor.”

4.02. In the event a vacancy exists due to the death, removal, resignation or incapacity of a member of the Board, the Board of Directors shall direct the Executive Coordinator to advertise for resumes of any owner/resident who desires to replace the departing Director. Upon

review, the candidates will be interviewed by the Board of Directors, who will choose a replacement to fill the seat until the end of the current Board year, when an election will be held to complete the remainder of the unexpired term.

4.03. NOTE: Section 2.02 of the Bylaws states “Directors and Officers shall be natural persons of the age of eighteen (18) or over, and must be members of the Association”.

Article 5 Election of Directors

[Formerly Statement 13 Revised September 30, 2008]

5.01. The success of any organization requires the service of dedicated, qualified people to contribute their time and talent to the accomplishment of community goals. For the POA, two or three residents (owners) will be elected each year to a three year term on the Board of Directors.

5.02. Each year the Board of Directors will direct the Executive Coordinator to prepare for the election of new Board members by:

(a) Soliciting candidates for the Board by announcements in the October Quarterly newsletter, with resumes to be received in the POA office from Board candidates by November 1st.

(b) Publishing resumes of candidates in the January Quarterly newsletter.

(c) Sending ballots in January to all property owners.

(d) Sponsoring a candidate’s forum on the Island.

(e) Hiring an independent auditor to count and verify the results of the election.

(f) NOTE: Candidates must be members of the POA in good standing, and at least 18 years of age.

(g) The election shall be conducted primarily by mailed ballot pursuant to Section 2.01 of the Bylaws. The Board shall provide that owners may mail their ballots directly to the independent auditor designated for tabulation of the votes, with all postage expenses paid by the POA. Any ballots not submitted by mail may be submitted in person at the beginning of the annual meeting at or prior to the last call for ballots announced by the President shortly after convening the annual meeting.

Provisions Concerning Finances

Article 10 Check Signing Policy

[Adopted February 28, 2017]

10.01. All checks, orders or transfers from the POA's accounts (except for transfers between different POA accounts) shall require the approval of two authorized signers. Generally, one of the signers will be the Executive Coordinator and the other authorized signers are members of the Board of Directors.

10.02. For presentation to the second authorized signer, the check, order or transfer request shall be accompanied by such supporting documentation as is reasonable, such as an invoice, contract or other backup paperwork.

10.03. For any checks, orders or transfers to an authorized signer, that person may not participate in the approval of the check, order or transfer, and any such items must be approved by two other authorized signers.

10.04. This policy has been adopted by the Board of Directors as a resolution of the Board, and the form of resolution included within any signature card of a financial institution used by the POA is incorporated herein by reference subject to the specifications provided above.

Article 11 Bids and Contracts

[Formerly Statement 4 Revised August 25, 2015]

11.01. The POA requires contracts for common area maintenance, dredging, bulkhead cap repair and other improvements.

11.02. Contracts. The Executive Coordinator is authorized to approve contracts of \$5,000 or less from a single source or by utilizing informal cost comparisons. Contracts over \$5,000 but up to \$20,000 may be authorized from a single source with Board approval.

11.03. Bids and Bidding. Contracts exceeding \$20,000 shall be competitively bid. Bids shall be solicited and submitted to the POA office or as otherwise directed in the bid documents sealed to be opened at a specified date and time. Bids received after the bid time but prior to the opening of any bids shall be opened and read along with the other bids; however, the irregularity concerning the time of receipt shall be noted on the bid. Any bids received after the first bid is opened shall be returned to the bidder unopened. Interested bidders may be present at the bid opening.

11.04. Evaluation of Bids. POA staff will evaluate all bids to ensure their responsiveness with the specifications. Board members and, to the extent applicable, professional consultants of the POA, may participate in the evaluation. For some contracts a committee of Board members may be appointed by the President for the evaluation of the bids. A recommendation of the lowest and most responsive bidder will be made to the POA's Board of Directors at its next meeting.

11.05. Interpretation of Bids. When in conflict, numbers written in words shall overrule any numbers written in figures, and unit prices stated shall prevail over any extension calculations of such unit prices. All decisions of the POA Board shall be final.

11.06. Reservation of Rights. The POA reserves the right to reject any and all bids, and the POA further has the right to waive any defect, irregularity or informality in any bid; however, the final decision in the award of any contract shall be subject to approval of the POA's Board of Directors.

Article 12 Code of Conduct and Conflicts of Interest

[Revised February 28, 2017]

12.01. General. All directors, officers, employees and volunteers of the POA shall observe high standards of business and personal ethics in the conduct of their duties and responsibilities. They must practice honesty and integrity in fulfilling their responsibilities and comply with all applicable laws and regulations.

12.02. Board Members. In the event that a member of the Board of Directors has a material interest in any matter coming before the Board of Directors for approval, that Director shall disclose the interest and abstain from any participation in the discussion or voting on the matter. The Director's abstention shall be noted in the minutes of the meeting.

12.03. Executive Coordinator. In the event that the Executive Coordinator has a material interest in any matter affecting the POA, the Executive Coordinator shall report such interest in writing to the Board of Directors. At the next Board meeting, the Board of Directors shall provide instruction as to such safeguards as may be required for the handling of such matters, such as assigning the responsibility to another staff member or Board member or establishing controls on the actions of the Executive Coordinator in handling such matter. The Board President may take such interim actions as deemed necessary to address the situation.

12.04. Staff. In the event that any other staff member has a material interest in any matter affecting the POA, such staff member shall report such interest to the Executive Coordinator and not participate in the handling of such matter except as specifically directed by the Executive Coordinator.

12.05. Volunteers. In the event that any volunteer on a committee of the POA has a material interest in any matter coming before such committee for approval, that member shall disclose the interest and abstain from any participation in the discussion or voting on the matter. The member's abstention shall be noted in the minutes of the committee meeting.

12.06. Material Interest. For the purposes of this Code, a “material interest” is defined as a material economic or financial interest of an individual or of a related party to such individual, including a spouse, parent, child, sibling or person co-habiting with the individual, together with the spouses of such persons. The term “related party” also includes the same list of persons who are related to the individual’s spouse. A material economic or financial interest includes the receipt of wages or other income, an investment interest whether as equity or debt, or other financial interest that provides a direct benefit to the person. Indirect financial or economic benefits are not considered to be material, such as from clients or customers of an employer of the person, participation as a depositor or borrower in a financial institution, or in a manner similarly shared with a substantial group of other members of the POA.

12.07. Appearance of Impropriety. Directors, officers, employees and volunteers of the POA recognize that some circumstances may create an appearance of impropriety even though no direct conflict of interest exists. In such cases, a person may voluntarily abstain from participation in the matter in order to avoid the creation of an appearance of a conflict of interest on the same basis as provided above.

12.08. General Rights as Members. Nothing in this Code shall prevent any director, officer, employee or volunteer from participating in any POA program on the same basis as any other member of the POA and enjoying the rights and benefits of membership in the POA.

12.09. [From TPC 209.0052] The POA may enter into an enforceable contract with a current Board member, a person related to a current Board member within the third degree by consanguinity or affinity, as determined under Chapter 573, Government Code, a company in which a current Board member has a financial interest in at least 51 percent of profits, or a company in which a person related to a current Board member within the third degree by consanguinity or affinity, as determined under Chapter 573, Government Code, has a financial interest in at least 51 percent of profits only if the following conditions are satisfied:

- (1) the Board member, relative, or company bids on the proposed contract and the POA has received at least two other bids for the contract from persons not associated with the Board member, relative, or company, if reasonably available in the community;
- (2) the Board member:
 - (A) is not given access to the other bids;
 - (B) does not participate in any board discussion regarding the contract; and
 - (C) does not vote on the award of the contract;
- (3) the material facts regarding the relationship or interest with respect to the proposed contract are disclosed to or known by the Board and the Board, in good faith and with ordinary care, authorizes the contract by an affirmative vote of the majority of the Board members who do not have an interest governed by this subsection; and
- (4) the Board certifies that the other requirements of this subsection have been satisfied by a resolution approved by an affirmative vote of the majority of the Board members who do not have an interest governed by this subsection.

Article 13 Petty Cash Fund

[Formerly Statement 22 Adopted September 24, 2009]

13.01. The POA office receives cash as payment for various items such as the boat ramp and car stickers. The 2008 audit recommended a better accounting be instituted in order to maintain a record of the money received and spent.

13.02. A petty cash fund in the amount of \$100 is to be established. All cash in excess of \$100 is to be deposited in the POA checking account.

13.03. A receipt shall be issued to the person paying in cash and a copy kept in the POA office. The receipts should be issued in numerical order.

13.04. A paid out voucher shall be issued for any money paid out of the petty cash fund.

Article 14 Emergency Repair Fund Investment Policy Statement

[Formerly Statement 1 Adopted: April 22, 2014]

14.01. Purpose of Investment Policy. This Investment Policy (“IPS”) is set forth by the Board of Directors in order to:

- (a) Establish a clear understanding for all involved parties of the IPS and guidelines that govern investment activities.
- (b) Define and assign the responsibilities of all involved parties.
- (c) Provide guidance to the Investment Manager(s) regarding the investment of funds.
- (d) Establish a basis for evaluating investment results.
- (e) Manage the funds according to the needs of the organization.

No deviation from this policy is allowed without prior written permission from the Board.

14.02. Objective. It shall be the objective of the POA to 1) preserve real purchasing power of the assets (net of inflation), and (2) achieve long-term growth defined as a perpetual 10-year time horizon. The investments will be comprised of various assets which, when taken together, are intended to achieve these goals.

14.03. Responsibility. (a) The Board will oversee the investments and select an investment advisory firm registered (Registered Investment Advisor- RIA) with the Securities and Exchange Commission (SEC). The Board shall review the actions and performance of the Advisor on a regular basis to assure that they are achieving expected levels of performance. The Board shall be responsible for developing the investment policy and guidelines.

(b) The Advisor shall be responsible for following this investment policy and adhering to fiduciary standards as defined under the Uniform Prudent Investor Act (“UPIA”) as approved for use in all states at the 1994 annual Conference of Commissioners on Uniform State Law and by the American Bar Association in 1995. The Advisor is expected to promptly inform the organization in writing of any significant matters that would impact investment of the organization’s funds including, but not limited to, personnel changes, investment strategy, research capabilities, organizational and business matters, any material regulatory or legal proceedings, and other qualitative factors that may impact their ability to achieve the desired investment results.

14.04. Investment Philosophy. (a) Prudent management of the assets requires a carefully conceived investment strategy designed to obtain a total return (income plus capital appreciation) necessary to preserve and enhance the principal of such funds. Investments should be managed in accordance with all applicable laws, rules, and regulations.

(b) Allocation assets for investment in the account may vary from time-to-time, as determined by the Board. Over time, an appropriate balance will be sought among fixed income securities, equities, alternative investments and cash or equivalents.

14.05. Rate of Return Objectives. Assuming long term inflation rates of 2-1/2 to 3-1/2%, the long term rate of return expectation is to exceed inflation as measured by the consumer price index (CPI) by 1-1/2% net of all investment costs. The long term return over a ten year time period is expected to be 4% to 6% annualized.

14.06. Risk Tolerance. Considering the potential need for funds based on the organization’s purpose for these funds, the risk tolerance should be moderate. For the purpose of achieving the long-term return objectives of this policy, declines in the value of the portfolio between 8% and 12% in a given year is acceptable, with declines in value as often as two out of seven years. These figures are based on 95% statistical probability, with potential for extreme conditions expected at 5% probability with potential declines in value greater than 8%.

14.07. Asset Allocation. (a) The Advisor will follow modern portfolio theory and leading industry guidelines for investing in a diversified portfolio containing various asset classes. The Advisor is directed to follow prudent fiduciary standards for investing in a manner appropriate with the objectives of the organization.

(b) The following target and range of acceptable allocations should be followed:

<u>Asset Class</u>	<u>Target %</u>	<u>Acceptable Range of %</u>
Cash and equivalents	0%	0% to 5%
Fixed Income Securities	65%	55% to 75%
Equity Investments	35%	25% to 45%

(c) Cash investments are intended, under normal circumstances, to be a temporary investment and not part of a long-term strategy.

(d) The portfolio of fixed income securities should be broadly diversified. No single security should represent more than 4% of cost of the total portfolio assets unless it is guaranteed directly by the U.S. government or a broadly diversified fund. Any individual bond should be investment grade (Standard & Poor's BBB or Moody's Baa or higher) with maturities of 15 years or less.

(e) Equity investments should include an appropriate mix of domestic and foreign large-cap, mid-cap, and small-cap investments diversified across a broad range of sectors and industries.

(f) Equity investments in foreign securities should average no more than 15% of the total portfolio at cost. Alternative asset class securities should be limited to no more than 10% of the total portfolio. No individual security, except diversified funds, shall represent more than 5% at cost of the portfolio.

(g) All assets should be liquid and tradable. The following are specifically prohibited from use in the portfolio: purchasing securities on margin, pledging securities, executing short sales or options.

14.08. Performance. The performance of the portfolio will be considered within the context of the overall investment policy. Each asset class shall be compared to appropriate benchmarks and the total portfolio should be compared against relevant blended benchmarks or other managers with similar objectives. The portfolio should be measured over three to five year periods. The following blended customized benchmarks are suggested:

Suggested Performance Benchmarks:

3-Month T-Bill index – 5%

Barclays Capital US Aggregate Bond Index – 50%

Standard and Poor's 500 Index – 30%

MSCI EAFE Index – 15%

14.09. Fees. At least annually, a report detailing all fees associated with the investments shall be provided. These fees should include but not be limited to investment management, consultant, advisor, brokerage or sales commissions, custodial, internal fund or manager fees.

14.10. Reporting. (a) The Custodian or broker will provide the Board with a monthly statement within 30 days of the end of each month containing all pertinent transaction details for the preceding month.

(b) Quarterly, the RIA shall provide a summary of all transactions in the previous 90 days. The final report should include a report of investment performance for the entire year.

(c) Periodically, the RIA shall provide the Board detailed information about asset allocation, investment performance, fees, future investment strategies, and any other matters of interest to the Committee.

(d) The RIA shall be reviewed at least semi-annually regarding performance, fees, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

14.11. Investment Policy Review. To ensure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Board plans to review the investment policy at least semi-annually.

Article 15 Emergency Repair Fund Annual Amount
[Formerly Statement 15 Adopted March 2005]

15.01. The POA owns and is responsible for the maintenance and upkeep of the bulkheads in the POA subdivisions. The POA self-insures the bulkheads against major storm damage.

15.02. The annual budget approved by the Board of Directors will include a line item for investment in the Insurance Reserve (Disaster) Fund; the actual amount to be determined each year based on anticipated revenues and expenditures.

15.03. At the end of the calendar year, the Board will either approve the budgeted amount to be invested, or will increase or decrease the amount, based on present financial conditions.

15.04. As financial conditions warrant during the year, the Board may allocate additional funds to be invested.

Article 16 Delinquent Accounts
[Formerly Statement 7 Adopted October 22, 2002]

16.01. Section 4.08 of the Bylaws (Section 4 – Assessments) states: “Any assessment not paid when due shall be deemed delinquent and shall bear interest from said due date at the rate of 6% per annum. In addition to liens as described in Paragraph 4.04 above, the POA shall also have the right to foreclose on such liens and all other rights and remedies necessary to collect delinquent accounts; with all costs being added to the delinquent Owners’ account.”

16.02. The Board of Directors has established the collection of annual fees for Common Area Maintenance as of January 1 of each year. Although due when presented, the Board permits the payment of the fee to be made by March 31 each year without penalty. Payment after March 31 will accrue an interest charge of 1.5% per quarter until the fee, the interest and other charges are paid in full.

16.03. After October 1, a lien will be filed on any unpaid assessment. If assessments are not paid after three years, or if the delinquent account (for all properties owned) is at least \$1,000, a foreclosure of the property will be initiated.

Article 17 Liens and Foreclosures

[Formerly Statement 8 Adopted October 22, 2002]

17.01. Section 4.08 of the Bylaws (Section 4 – Assessments) reads “Any assessment not paid when due shall be deemed delinquent and shall bear interest from said due date at the rate of 6% per annum. In addition to liens as described in paragraph 4.04 above, the Association shall also have the right to foreclose on such liens and all other rights and remedies necessary to collect delinquent amounts; with all costs being added to the delinquent owners’ account.

17.02. Annual assessments are mailed to lot owners in January each year and are due upon receipt, but interest charges will not be added for ninety days. Interest of 1.5% per quarter will be added to the assessment each quarter until payment is received. After 270 days (October 1 of each year), a lien will be filed if the assessment is not paid.

17.03. If assessments are not paid after three years, or if the delinquent account is at least \$1,000, a foreclosure of the property will be initiated.

Article 18 Deeds in Lieu of Foreclosure

[Formerly Statement 12 Adopted October 22, 2002]

18.01. The POA has, and will, accept properties in lieu of foreclosure. Typically, owners of the properties owe taxes and POA assessments (dues, interest, and lien filings). The recent increase in value of Padre Isles lots could result in the POA receiving more than the amount owed in fees, taxes and attorneys’ fees, and may result in owners alleging fraud or misrepresentation.

18.02. Any property deeded to the POA in lieu of foreclosure will be handled in the following manner:

(a) The owner will sign a General Warranty Deed to the POA conveying the lot. The consideration for the sale will be the release by the POA of any continuing personal liability for the unpaid fees, assessments, attorneys’ fees and court costs.

(b) The POA will agree to discharge the assessments and pay the outstanding property taxes due. (The property taxes can actually be deferred until closing the sale of the property to a new buyer, so no cash would have to be paid in advance by the POA.)

(c) The POA will solicit bids for the property and close the sale through a title company. Part of the costs of the sale will be obtaining a new Owner Policy of Title Insurance to assure that the party who deeded the property had good title and the POA has good title. The title company also can pay the property taxes out of the sales proceeds.

(d) The net sales proceeds, after (a) the payment of the POA's fees, assessments, attorneys' fees, court costs and expenses in full, (b) the payment of the property taxes owing, and (c) the payment of all closing costs with the title company (including the Title Policy), will be split 20% to the owner and 80% to the POA.

Provisions Concerning Personnel

Article 20 Employee Reprimand or Termination

[Formerly Statement 23 Adopted October 27, 2009]

20.01. There may be a time when an employee does not meet the work expectations of the Board and/or the Executive Coordinator.

20.02. When an employee is reprimanded or terminated, there shall be a minimum of 2 people, one of which will be a Board Member, at the reprimand or termination meeting.

20.03. A written document signed by the reprimanded or terminated employee and the primary person making the reprimand or termination shall document the reason for the reprimand or termination. The signatures need to be witnessed by a third party. A copy will be given to the employee and a copy shall be kept in the employee's personnel file.

20.04. The employee who is reprimanded may respond in writing. If the employee does not respond in writing, it is assumed the documentation is correct.

Article 21 Whistleblower

[Formerly Statement 24 Adopted May 25, 2010]

21.01. The POA's Code of Conduct (the "Code") requires directors, officers and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. All employees and representatives of the POA must practice honesty and integrity in fulfilling their responsibilities and comply with all applicable laws and regulations.

21.02. Reporting Responsibility. The POA can address and correct inappropriate conduct and actions. It is the responsibility of all board members, officers, employees and volunteers to report concerns about violations of the POA's code of ethics or suspected violations of law or regulations that govern the POA.

21.03. No Retaliation. It is contrary to the values of the POA for anyone to retaliate against any board member, officer, employee or volunteer who in good faith reports an ethics violation, or a suspected violation of law, such as a complaint of discrimination, or suspected fraud, or suspected violation of any regulation governing the operations of the POA. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment.

21.04. Reporting Procedure. The POA has an open door policy and suggests that employees share their questions, concerns, suggestions or complaints with the Executive Coordinator. If you are not comfortable speaking with the Executive Coordinator or you are not satisfied with the response, you are encouraged to speak with a Board member. The Executive

Coordinator is required to report complaints or concerns about suspected ethical and legal violations in writing to the President of the Board of Directors, who has the responsibility to investigate all reported complaints. Employees with concerns or complaints may also submit their concerns in writing directly to the Executive Coordinator or the President of the Board of Directors.

21.05. Board President. The Board President is responsible for ensuring that all complaints about unethical or illegal conduct are investigated and resolved. The President will advise the Executive Coordinator and the Board of Directors of all complaints and their resolution and will report at least annually to the Treasurer on compliance activity relating to accounting or alleged financial improprieties.

21.06. Accounting and Auditing Matters. The Board President shall immediately notify the Treasurer of any concerns or complaint regarding corporate accounting practices, internal controls or auditing and work with the Board until the matter is resolved.

21.07. Acting in Good Faith. Anyone filing a written complaint concerning a violation or suspected violation must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

21.08. Confidentiality. Violations or suspected violations may be submitted on a confidential basis by the complainant. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

21.09. Handling of Reported Violations. The Board President will notify the person who submitted a complaint and acknowledge receipt of the reported violation or suspected violation. All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation.

Provisions Concerning Records

Article 30 Request for Information

[Previously Statement 14 Revised as part of Bylaws September 24, 2013]

30.01. Books and records of the Association will be made available for inspection and copying pursuant to applicable law, such as Section 22.351 of the Texas Business Organizations Code and Section 209.005 Texas Property Code. The Board may require a member to submit a written demand for inspection by certified mail to the Association, stating the purpose for which the member will inspect the books and records. The Board has the following rights: (1) to determine whether the member's purpose for inspection is proper; (2) to deny the request if the Board determines that the member's purpose is not proper; (3) if granting the request, to identify which books and records are relevant to the member's stated purpose for inspection. [See Texas Property Code § 209.005]

30.02. A member, at member's expense, may obtain photocopies of books and records for which the Board grants the right of inspection. The Board has the right to retain possession of the original books and records, to make copies requested by the member, and to charge the member a reasonable fee for copying. The charge for standard paper copies reproduced by means of an office machine copier or a computer printer is \$.10 per page or part of a page. Each side that has recorded information is considered a page. Requests for copies of POA reports, Board minutes, Committee reports, ACC approvals, etc. shall be in writing, with copies to be provided within 24 hours to the requester; or information which cannot be copied shown to the requester for his or her review. Persons who request written information will be assessed \$1.00 per page.

Article 31 Document Retention

[Previously Statement 25 Adopted May 25, 2010]

31.01. The purposes of this document retention policy are for the POA to enhance compliance with the Sarbanes-Oxley Act and to promote the proper treatment of corporate records of the POA.

31.02. General Guidelines. Records should not be kept if they are no longer needed for the operation of the POA or required by law. Unnecessary records should be eliminated from the files. The cost of maintaining records is an expense which can grow unreasonably if good housekeeping is not performed. A mass of records also makes it more difficult to find pertinent records.

31.03. From time to time, the POA may establish retention or destruction policies or schedules for specific categories of records in order to ensure legal compliance, and also to accomplish other objectives, such as preserving intellectual property and cost management. Several categories of documents that warrant special consideration are identified below. While minimum retention periods are established, the retention of the documents identified below and of documents not included in the identified categories should be determined primarily by the

application of the general guidelines affecting document retention, as well as the exception for litigation relevant documents and any other pertinent factors.

31.04. Exception for Litigation Relevant Documents. The POA expects all officers, directors, and employees to comply fully with any published records retention or destruction policies and schedules, provided that all officers, directors, and employees should note the following general exception to any stated destruction schedule: If you believe, or the POA informs you, that POA records are relevant to litigation, or potential litigation (i.e., a dispute that could result in litigation), then you must preserve those records until it is determined that the records are no longer needed.

31.05. Minimum Retention Periods for Specific Categories.

(a) *POA Documents.* POA records include the POA's articles of incorporation, by-laws and IRS Form 1023, Application for Exemption. POA records should be retained permanently. IRS regulations require that the Form 1023 be available for public inspection upon request.

(b) *Tax Records.* Tax records include, but may not be limited to, documents concerning payroll, expenses, proof of contributions made by donors, accounting procedures, and other documents concerning the POA's revenues. Tax records should be retained for at least seven years from the date of filing the applicable return.

(c) *Employment Records/Personnel Records.* State and federal statutes require the POA to keep certain recruitment, employment and personnel information. The POA should also keep personnel files that reflect performance reviews and any complaints brought against the POA or individual employees under applicable state and federal statutes. The POA should also keep in the employee's personnel file all final memoranda and correspondence reflecting performance reviews and actions taken by or against personnel. Employment applications should be retained for three years. Retirement and pension records should be kept permanently. Other employment and personnel records should be retained for seven years.

(d) *Board and Board Committee Materials.* Meeting minutes should be retained in perpetuity in the POA's minute book. A clean copy of all other Board and Board Committee materials should be kept for no less than three years by the POA.

(e) *Press Releases/Public Filings.* The POA should retain permanent copies of all press releases and publicly filed documents under the theory that the POA should have its own copy to test the accuracy of any document a member of the public can theoretically produce against the POA.

(f) *Legal Files.* Legal counsel should be consulted to determine the retention period of particular documents, but legal documents should generally be maintained for a period of ten years.

(g) *Marketing and Sales Documents.* The POA should keep final copies of marketing and sales documents for the same period of time it keeps other corporate files, generally three

years. An exception to the three-year policy may be sales invoices, contracts, leases, licenses, and other legal documentation. These documents should be kept for at least three years beyond the life of the agreement. .

(h) *Contracts*. Final, execution copies of all contracts entered into by the POA should be retained. The POA should retain copies of the final contracts for at least three years beyond the life of the agreement, and longer in the case of publicly filed contracts.

(i) *Correspondence*. Unless correspondence falls under another category listed elsewhere in this policy, correspondence should generally be saved for two years.

(j) *Banking and Accounting*. Accounts payable ledgers and schedules should be kept for seven years. Bank reconciliations, bank statements, deposit slips and checks (unless for important payments and purchases) should be kept for three years. Any inventories of products, materials, and supplies and any invoices should be kept for seven years.

(k) *Insurance*. Expired insurance policies, insurance records, accident reports, claims, etc. should be kept permanently.

(l) *Audit Records*. External audit reports should be kept permanently. Internal audit reports should be kept for three years.

31.06. Electronic Mail. E-mail that needs to be saved should be either: (i) printed in hard copy and kept in the appropriate file; or (ii) downloaded to a computer file and kept electronically or on disk as a separate file. The retention period depends upon the subject matter of the e-mail, as covered elsewhere in this policy.

Article 32 Disaster Plan
[Previously Statement 26]

32.01. The POA is located wholly on a barrier island which means the properties included in and owned by the POA need to be prepared in case a hurricane's projected track is towards Corpus Christi and an evacuation order has been issued.

32.02. This policy is to put in place a plan to protect the personal property and records which the POA maintains.

32.03. The Board has established an investment fund to help cover some of the costs to replace the bulkheads, if they were destroyed. Engineers have indicated that the likelihood of losing all of the bulkheads is minimal. The Board set a minimum for the investment fund of \$6 million.

32.04. In addition, the Board established a Municipal Management District which does not have taxing authority, but is a government entity which makes it eligible for any Federal or State emergency funds.

32.05. The Staff Assignments below details which staff person is responsible for specific items. It is accepted that the Staff Assignments may change as personnel change and as technology changes. The Staff Assignments may be updated without Board action as the Executive Coordinator deems necessary.

STAFF ASSIGNMENTS

Executive Coordinator Responsibilities:

Prepare articles for PIBA bulletin and the MOON encouraging residents to sign up for the Reverse Alert System as well as providing their email to the office.

Prepare email blasts providing residents with the latest information regarding evacuation orders and instructions. Be sure to include information about boats - residents shall have until 24 hours prior to any mandatory evacuation order covering the Island to remove watercraft from canals. After that time, remaining vessels may be securely moored in the Navigation Channels with mooring lines crossing the Channels, but vessel owners will be solely responsible for securing their vessels and their prompt removal within 48 hours after the Island is reopened to residents.

Make sure staff and Board members have each other's cell phone contact numbers

Arrange for contractors to board up windows and doors (boards are in the storage shed on the left side of the building)

Contractors will also shut off electricity and water to the building

Stay in contact with emergency management office for information on returning to Island and do an e-blast to residents with that information.

For 2016, setup an emergency office at 829 Cleopatra on the mainland

Office Manager Responsibilities:

Complete all paperwork – pending ACC approvals and deposits

Make sure the server is backed up to the “cloud”

Backup individual computers

Move computers to the center of the building and cover with tarps

Put all loose files and paperwork in plastic bins and also put them under tarps.

ITEMS TO BE REMOVED:

Petty cash

Blank UBS checks

Insurance Information

Server, CPU's and Laptops

Provisions Concerning Covenant Enforcement

Article 40 Covenant Enforcement

[Previously Statement 6 Adopted October 22, 2002]

40.01. The Architectural Control Committee, based on the Covenants, has established a set of regulations concerning the exterior of single family houses, fences, swimming pools, decks and docks. The majority of residents and owners comply with the regulations and submit plans for approval. Decks, docks and swimming pools are usually built by contractors who understand the system and comply with the regulations. Fences are often built by the owner of the property and often do not submit a plan. If no plans are submitted, the owner is notified, but the only action taken is to talk to them and explain the need to submit plans. Some owners will not return calls, or flatly refuse to comply with the regulations. The lack of enforcement will eventually result in a total breakdown of the system and no policies will be enforceable.

40.02. The Compliance Inspector will attempt to contact the owner in person or by telephone to inform him of the violation. If the owner does not respond or refuses to comply, the Inspector will notify the Executive Coordinator. A certified letter will be sent to the owner, and will request compliance within 10 days. If the owner ignores or refuses to comply with the request, the Executive Coordinator will notify the owner that a mechanic's lien will be placed on the property; and if the matter is not settled to the satisfaction of the POA, legal action will be pursued.

Article 41 End of Canal Cleanup

[Previously Statement 10 Adopted October 22, 2002]

41.01. Board Attorney John Bell provided an opinion to the Board of Directors that the land from the end of a canal to the city easement, and from the easement to the curb is the property and responsibility of the POA.

41.02. The POA will obtain an annual bid to cut, edge, weed, trim and otherwise maintain the properties at the end of the canals.

Article 42. Moorings

[Previously Statement 21 Adopted October 28, 2008]

42.01. The POA canal system is a common area that consists of many canals. The canal width between bulkheads varies from eighty feet to several hundred feet. The properties on the canal system have a platted area from the bulkhead into the canal for the construction of decks that can be used for docking boats that varies from ten (10) to thirty (30) feet. In 2007 the Board of Directors revised the Mooring Permit process to allow property owners on wide canals to encroach into the channel with their moored vessels, so long as 80 feet of the Navigation Channel, measured from the center of the canal forty feet either side of the center, was free and clear. Therefore, the following policy applies for safe navigation within the canal system.

42.02. Owners on canals with less than 80 feet of the Navigation Channel will moor their boats within the platted area as shown on property and canal maps.

42.03. Boats may be moored outside of the platted area as long as the moored boat does not infringe on the 80 feet of the navigation channel.

42.04. A POA permit is required for all docks built within the platted area. Docks, posts, etc. may not be built beyond the platted areas.

42.05. Boats should be moored either parallel to the bulkhead or at a 45° angle to the bulkhead. Boats moored at a 90° angle to the bulkhead must be moored with the stern away from the bulkhead. Repair of damage to bulkheads that is caused by prop-wash from improperly moored boats will be at the expense of the property owner or condo association.

42.06. Mooring buoys may be used in wide canals as long as they do not infringe with the 80 feet of the Navigation Channel. A mooring buoy will be a minimum 24" buoy with reflective tape, with a minimum 3/8-inch hot dipped galvanized chain, in a five gallon bucket filled with concrete and placed within the appropriate area in the water. A POA permit is required for the installation of a mooring buoy.

42.07. Dock/Mooring Permit applications are available in the POA office. The application and a one-time fee must be submitted for any dock or a mooring buoy. Once an owner has a mooring permit, any change in dock or buoys will require the owner to submit an application for a new permit.

Article 43 Standards for Pets and Animals

[Previously Statement 28 Adopted April 26, 2016]

43.01. The Protective Covenants include provisions stating that “No cattle, hogs, poultry, horses, or other animals may be kept on any part of the subdivision, except that this paragraph shall not preclude the keeping of pets or animals other than the above mentioned such as are ordinarily kept as pets in residential subdivisions provided they are not kept or bred for any commercial purposes.” The same provision prohibits any activity “which may be or become an annoyance or nuisance to the neighborhood.” In order to provide further clarity in the enforcement of this Covenant, the Board adopts the following standards as rules to be followed in connection with the keeping of pets and animals in the subdivisions.

(a) Pets. The definition of a pet shall include a dog, cat, canary, finch, cockatiel, hamster, guinea pig, gerbil, rabbit, ferret, fish, or small non-poisonous reptiles.

(b) Limitation on Pets. The keeping on any lot of more than six (6) pets is prohibited in order to avoid the number of pets on any lot to become a nuisance affecting other property owners. Fish are excluded from the count for the purposes of this limitation.

(c) Care of Pets. All pets shall be kept either indoors or in a yard with a secure fence. Any pets taken in the neighborhood shall be restrained on a leash or otherwise under the effective control of a person accompanying the pet unless within a designated dog park.

(d) Domestic Fowl. Domestic fowl such as chickens and ducks are NOT allowed within the subdivision.

Article 44 Washouts

[Previously Statement 9 Adopted October 22, 2002]

44.01. A washout is a loss of sand behind (on the land side) of the bulkhead, generally caused by lack of vegetation to diffuse the runoff of water. The repair includes digging out the sand to the water line, adding marafite to the bulkhead wall and refilling with sand. Residents are informed of the way to correct the problem.

44.02. The POA will repair one washout without charge. A letter will be sent to the owner, describing the repair and advising the owner of the reason for the washout. Additional washout repairs will be charged to the owner at cost.

Article 45 Damages to Common Areas

[Previously Statement 18 Adopted January 23, 2007]

45.01 The State of Texas protective covenants and landowners' agreement for the subdivisions of the Padre Isles Property Owners Association (PIPOA) states in paragraph 6 of the Landowners' Agreement the following: *“Any person negligently or willfully damaging or destroying all or any portion of the common area, including the bulkheads and tie backs, shall be responsible to the Trustee for damages, and the Trustee shall use any funds collected by claim lawsuit or settlement agreement growing out of such damage or destruction, to repair such damage or destruction, to the extent of such funds.”* (NOTE – The Padre Isles Property Owners Association Board of Directors is now the Trustee.)

45.02 The President of the PIPOA Board of Directors will be immediately notified of any damage or destruction as outlined in paragraph 6 of the Landowners' Agreement. The President will then appoint a Board member to investigate the damage or destruction and report their findings and recommendations to the Board.

Article 46 Enforcement and Fine Policy

[Previously Statement 27 Revised January 31, 2017]

In an effort to avoid confusion and enforce the Protective Covenants in the most transparent and effective way, the following Rules and Procedures are provided.

46.01. Authority. In the Protective Covenants for each of the subdivisions, the Association (identified as “Trustee” therein) is given explicit authority to “enforce observance or performance of the provisions of this instrument.” [See “Enforcement” Section included typically as Article IX in each of the Covenants.] In the Articles of Incorporation, Article 4, the Association is responsible for the “enforcement of any deed restrictions covering such property in accord with the terms thereof including the assessment and collection of maintenance fees and charges as provided thereunder.” In the Bylaws, Section 2.06A, the Board of Directors “shall have power to make rules for the government of the Association as it may deem necessary and to alter and amend the same; to prescribe and enforce penalties for violations of the rules and bylaws of the Association; to assess and fix charges to be levied against the members of the Association subject to limitations and conditions contained in the Protective Covenants and Landowner’s Agreements filed of record for the Subdivisions; and to exercise such other powers as may be necessary or proper to attain the objectives of the Association.”

46.02. Responsibilities. The parties responsible for these Rules are as follows:

- (a) Board of Directors - The Board of Directors (“Board”) will govern the general provisions of the Protective Covenants and Architectural Control Committee architectural rules and restrictions and provide oversight of these areas on a continuous and steady basis, as required.
- (b) Architectural Control Committee - The Architectural Control Committee (“ACC”) is the primary organization to establish, update, and maintain all construction and land use rules and restrictions.
- (c) Executive Coordinator - The Executive Coordinator is the manager of the Compliance Program and the primary point of contact for information requests, grievance questions, and compliance issues for individual owners.
- (d) Compliance Inspectors – The Compliance Inspectors are staff members authorized by the Board to canvass the subdivisions, observe land use and construction practices, investigate covenant and rules violations and process the requisite paperwork needed to initiate bringing properties and practices back into compliance. Additionally, they prepare thorough monthly reports of actions taken, outcomes, and pending items for Board and Executive Coordinator review.

46.03. Types of Infractions and Fines. The following rules and fines are adopted as charges to be assessed against owners for non-compliance with the Protective Covenants and rules after proper notice and opportunities to correct the infractions:

- (a) Trash and Rubbish. No lot shall be used as a dumping ground for rubbish or trash. \$50.00
- (b) Garbage Containers. Garbage shall be kept only in the sanitary City-provided containers. These containers will be put out no earlier than 7PM on the day before pickup and removed no later than midnight on N/A

- pick-up day.
- (c) High Grass and Weeds. No grass or weeds on occupied or vacant lots shall grow higher than twelve inches before being mowed. Weeds shall be removed from yards, whether grass, rock or concrete, on a regular basis. No weeds shall be allowed to grow under or around any parked vehicles or trailers. \$50.00
 - (d) Tree Maintenance. All shrubbery, plantings, and trees shall be maintained by trimming or pruning as needed. Palm trees shall be trimmed at least annually to remove their brown fronds. \$50.00
 - (e) Plastic, Fabric or Other Ground Cover Barriers. Rock and other yard materials over ground cover barriers must be regularly maintained by the addition of material and necessary repairs. The appearance of multiple or large sections of barrier showing through the rock or other cover materials is not allowed. \$50.00
 - (f) Unused Items in Front of Residence. Front yard and driveway shall remain clear of any sports equipment, folding chairs, tables, bicycles and toys when not in use. Any grills used in the front yard should be removed and stored behind the fence or in the garage when grilling is finished and they can be safely removed and stored. \$50.00
 - (g) Clothes Lines and Antennas. No clothes lines shall be erected on any property except in screened areas as permitted by the ACC. No antennas or wires from antennas shall be erected or maintained on any tract forward of the front building line on any property. \$50.00
 - (h) Boat Docks. All boat docks and decks shall be maintained for safety and appearance. Any rotting or sagging boards shall be removed and replaced with new boards. \$50.00
 - (i) Dumping in Canals. Nothing shall be thrown or dumped into the canals, including limbs, leaves, grass clippings, fish remains, pet waste or any other foreign matter. \$50.00
 - (j) Curbs and Gutters. The curb and gutter area in front of each lot shall be kept free of weeds, sand, gravel and debris. \$50.00
 - (k) Fences and Walls. All fences and walls shall be maintained for safety, security and appearance. Broken or missing boards shall be replaced. Repairing or rebuilding fences and walls shall follow the ACC standards and any changes require a permit from the ACC. \$50.00
 - (l) Exterior Maintenance. Any painted surface shall be maintained in good \$50.00

condition. House trim, garage doors, windows and doors shall be painted as needed. Rust and mildew shall be removed as needed.

- (m) Inoperable Vehicles/Trailers. No inoperable vehicle or trailer may be stored in the front yard or driveway of any lot. Any vehicle or trailer with an expired license shall be presumed to be inoperable. \$50.00
- (n) Construction Violations. Violations by contractors of the ACC's Policy and Procedures Guide and Construction Standards. \$50.00
- (o) Misuse of Common Areas. Violations involving unauthorized use of common areas such as parking violations on boat ramps, the unauthorized use of boat ramps, and the placement of structures, such as fences, benches, etc. on medians, end caps, or other common areas without the Board's written consent. \$50.00

46.04. Compliance Procedures and Timelines. The following compliance procedures and timelines are provided to afford due respect and opportunity to resolve issues in a timely and non-punitive manner. Once notified of a violation, owners should be given an amount of time, appropriate for the complexity and size of the violation, to correct the issue. Failure to meet the established timeframes will result in enforcement action to assess fines until such time as the violation is corrected.

(a) Initial Inspection.

1. Apply standard from Protective Covenant or rule to the property.
2. Take picture of address of property.
3. Take pictures of front of house and violations noted. (Be sure to include pictures or front of house, next-door house or other larger area in order to help identify location of violations on the property and verify location of the property.)

(b) Office Procedure.

1. Save pictures of each address under address name and date of visit.
2. Create work order.
3. Create 14-day letter or 30-day letter providing initial notice.
4. Save letter copy to work order.
5. Mail out letter by first class mail.

(c) Re-Inspection.

1. Follow same steps 1-3 for Initial Inspection after initial deadline.
2. Save new pictures with address to work order and note date of re-check.
3. Create notice of fine and continuing violation letter including a "Notice of Board Hearing" as required by the Texas Property Code.
4. Save letter copy to work order.
5. Mail out letter by first class mail and certified mail, return receipt requested.

The Re-Inspection procedure may be repeated for up to six (6) months after the first letter without the need to send the “Notice of Board Hearing” letter. Any repeat offenders shall be referred to the Board and legal counsel for review.

46.05. Hearing Procedures. For those owners who request a hearing before the Board, the hearing will be scheduled by the Executive Coordinator at the next Board meeting following receipt of the request and the owner will be provided a minimum of ten (10) days’ notice of the hearing. An owner may request a continuance for one month in order to schedule time to be able to attend. At the hearing, the Board will provide the owner the opportunity to explain his or her position on the issue. Upon conclusion of the hearing, the Board shall determine what action is necessary under the circumstances.

46.06. Legal Action. It is not the desire of the Board to initiate legal action against any of its members but occasionally violations occur and corrective action is either avoided or refused such that it negatively impacts the overall condition and values of properties in the subdivisions. At that point, the Board will aggressively pursue all legal options to ensure the standards are maintained for the benefit of all members of the Association.

46.07. Recordkeeping. Compliance Inspectors will maintain all records of inspection and violations on the integrated database of properties maintained by the Association. All violations will be documented in writing and with photographs. Photographs shall include a time and date stamp in order to assist in documentation. Violation letters shall be sent to the property owners in a timely manner. The violation shall be clearly defined and the Protective Covenants section and rule, if applicable, will be listed in the letter of violation. The property owner will be given a specific time frame for the violation to be corrected that is reasonable under the circumstances, typically 7 days to 30 days.

46.08. Inspection Procedures. Inspections or re-inspections should take place daily as weather permits and in consideration of other duties. Each inspection should follow these steps:

- (a) Notation of the address (either in writing or by photograph).
- (b) Notation of the violation.
- (c) Document the violation through photographs. The Compliance Inspector should at no time enter any residential property without the consent of the resident. All photographs should be taken from the street, sidewalk, walkway or from a vacant lot or property with the owner’s permission.

46.09. Inspectors’ Appearance. The Compliance Inspector is the face of the Association in the community. His or her appearance should be always neat and clean. In addition, the conduct of the Compliance Inspector will be watched very closely. For that reason, all attention should be given to present a positive image at all times. Shirts shall be provided by the Association for each Compliance Inspector in order to identify the Inspector in a very obvious way. In addition, a name tag will be provided and should be worn at all times while on duty. Long pants, jeans, or shorts may be worn, however, all shorts should be of a “dress” style. No jean shorts or “sport” shorts shall be permitted. Shorts should be of an appropriate length. Sturdy footwear should be worn at all times and no sandals or thongs shall be permitted.

46.10. Gratuities and Favoritism. No Compliance Inspector shall at any time receive any payments, gifts, incentives or inducements from any member of the Association in order to avoid a conflict of interest. Additionally, Compliance Inspectors should view the property, not owners when interpreting the Protective Covenants and rules. No favoritism shall be shown to anyone in the inspection or re-inspection process. It is understood that members of the Association might want to send thank you or holiday gifts to the POA or its staff members. Such items should not exceed the nominal value of \$75 and should only be accepted on behalf of, and for the use of, the entire POA office staff rather than any given individual.

46.11. Inspection Procedures. The Executive Coordinator shall establish inspection procedures so that the various subdivisions within the Association are regularly inspected, both according to a defined schedule and randomly or in response to complaints, at least twice each year. Some inspections may be scheduled on weekends as necessary or advisable in assuring proper coverage.

Article 47 Contractor Fees

[Previously Statement 5 Adopted September 24, 2002]

47.01. A number of builders on the Island own multiple properties. Most pay the annual fees on time, but a few wait until the property is built on and sold. Two builders owe a significant amount of money, but continue to develop their properties.

47.02. Builders and lot owners must pay the fees and interest owed on the property, along with the cleanup deposit and the fee for approval, or the plans will not be approved.

Article 48 Builder Cleanup Deposits

[Previously Statement 17 Adopted 2005]

48.01. A \$350 returnable deposit is paid by the contractor for any construction project of at least \$5,000. During the project, the Compliance Inspector will periodically inspect the property and ascertain that the site is in reasonable condition (trash container in place, no loose debris on site, etc.). At the conclusion of the project, the contractor shall notify the POA office and asks for an inspection of the property. Within 3 days, the property will be inspected, and if approved, the POA office will prepare a check for the return of the deposit, less any applicable deductions, during the next payment cycle.

48.02. If the construction site has a sand pile, debris on adjoining lots, construction materials left on the site, the street in front of the site is not swept, and any other unsightliness is apparent, the Inspector will notify the contractor that further cleanup is necessary before the refund is made.

48.03. A non-refundable fee of \$50 for single and multi-family housing; and \$30 for fences, docks, decks, pools, etc. pays for the Architectural Control Activities related to miscellaneous construction activities and inspections.

48.04. If, during the construction cycle, the Compliance Inspector determines that the site needs to be cleaned, he will notify the contractor by telephone or personal visit, and will send a post card to the contractor's office, informing the contractor that the lot must be cleaned within three days.

48.05. If a second visit to the site is required, the contractor will be notified that the POA will use his deposit to clean up the site. If the cost exceeds \$350, the contractor will be notified that he owes the POA for the additional cost. Further plan submissions by this contractor will require a refundable deposit of \$500.