To: Board of Directors, Clearwood Community Association

From: Jennifer Spidle, CPA, CMCA, Joint Partners, LLC

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RE: Dues & Assessments in the Long Term

The Long Term – Dues & Assessments

This year, 2021, marks the first time in Clearwood's 50-year history that the Community has had complete and comprehensive information required to accurately determine the proper funding level for the Association's Reserves. This is because Clearwood is now using factual Engineer reports to more accurately determine costs of major components/assets such as roads, the water system, tennis courts, and retaining walls.

A part of the discussion regarding the 2022 Proposed Budget at the 08/16/2021 Town Hall included a *HIGH LEVEL* 10-year dues projection. Following the Town Hall, Board Member Ray Brooks asked excellent questions which included: what will happen to dues *after* the 10-year Roads/ Water plan is complete; after 2031? Will dues continue to rise?

While the answer to what happens to dues after 2022 is outside the scope of the proposed 2022 Budget (because the budget is prepared and ratified each year). The short answer –the leadership and membership of the Association make that decision each year. If the question is asked in terms of financial viability, the answer mostly depends on what level of risk the Association sets their Threshold Funding goal for the Reserve Study. To fully answer that, we first need to have a discussion on Reserve Studies & what funding levels/goals mean.

> *A RESERVE STUDY is a budget planning tool which identifies the components that the association is responsible to maintain or replace, the current status of the reserve fund, and a stable and* equitable funding plan to offset the anticipated future major common area expenditures. The reserve study consists *of two parts: the physical analysis and the financial analysis.*
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> *The Funding Plans are based on three different Funding Goals which are listed below and are presented in order of greatest risk to least risk. Risk includes, but is not limited to, special assessments and borrowing if enough funds are not available at the time of replacement of a component.*
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> *The Funding Goals are:*
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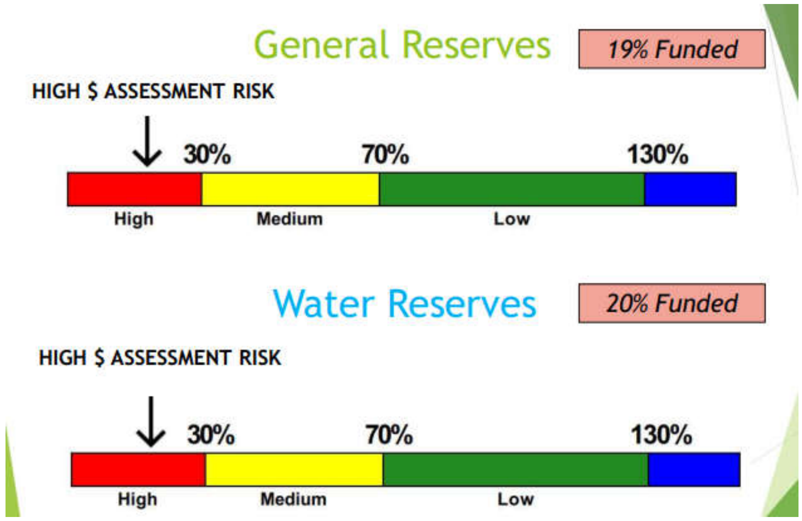
> 1. ***Baseline Funding****: Establishing a reserve funding goal of allowing the reserve cash balance to be at or near zero during the cash flow projection. This is the funding goal with the greatest risk due to the variabilities encountered in the timing of component replacements and repair and replacement costs.*
> 2. ***Threshold Funding****: Establishing a reserve funding goal of keeping the reserve balance above a specified dollar or percent funded amount. Depending on the threshold selected, this funding goal may be weaker or stronger than "fully funded" with respective higher risk or less risk of cash problems.*

3. ***Full Funding**: Setting a reserve funding goal to attain and maintain reserves at or near 100 percent funded. This is often the most conservative funding goal.*[1]

In Reserve Study planning, it is important to keep in mind, this is a long-term planning funding account – it annually accumulates and disburses to fund the anticipated. That same fund is also utilized to cover the replacement of any emergent unplanned capital expense.

Currently, the Association is at a High Dollar Assessment risk in both their General & Water Reserves because your cash reserve is very low. If the strategy is to have sufficient funds to cover the near-term capital, and a significant unplanned expense is encountered, the consequence encountered is insufficient cash to sustain infrastructure. This can place the Association into financial turmoil.



Thus, the answer to those excellent questions is based on the Association's risk level. The Board and membership determine level of risk, the risk level determines the Threshold Funding goal for percent funded, and percent funded goals help to determine how much the annual assessments are for Reserves.

At the end of the 10-year High Level dues projection, the Association is expected to be 7.9% funded in Reserves, which is a high dollar assessment risk. The Association will not be facing a planned large expense at this time and will allow sufficient time to build up the Reserves for those planned future actions. Therefore, if Reserve Assessments do not change for 20-years following (after 2031) with assessments only changing to fund the maintenance and operations of the Association, Reserves are projected to be 66% funded in 2051.

If, after 10-years of replacing our most expensive assets (roads and water distribution) we do not need to replace them again for another 20 years, and assessments remain constant, the Association is financially viable and well positioned in the future. We believe this is the goal of this Board of Directors.

[1] Foundation for Community Association Research. (2020). Best Practices Report #1 Reserve Studies/ Management [PDF]. *Foundation for Community Association Research*. https://foundation.caionline.org/wp-content/uploads/2017/06/bprs.pdf