# FW Long Term Financial Policy

Adopted by the Board on November 13, 2017 *Revised December 27, 2020*

## Strategy

It is the goal of the Board of Directors that we will manage our resources to preclude the need to levy special assessments while limiting excess retained earnings.

## Assumptions for Retained Earnings

## Bad Debt

This is a reserve fund that we should not have to have but there is always a chance of needing funds for this type expense. It will be used for writing off the bad debt. Attorney fees expended to collect bad debt are charged to the delinquent account and they become bad debt if not collected. We will cap this fund at around $6,000 and replenish it at a $1,200/as needed. If we have no further bad debt accounts, future Boards may reduce the cap on this account.

## Routine Road Maintenance (Chip Seal)

This will be the largest reserve fund. The only thing charged to this account is the routine road maintenance resulting from normal wear and tear. We have 7.5 miles of road that may cost $270.000 to $320.000 to completely resurface. This expense is subject to the annual road inspections and we may not have to resurface all the roads in one particular year. It is also possible that some sections of road may have to be resurfaced more often than others. We will cap this fund at $320,000 and replenish it at a $35.000/ year rate. It is highly unlikely that this account will ever reach the cap because various amounts of chip seal is likely to be required in most years.

## Road Damage Repair (Other than Routine Chip Seal)

In the Fall of 2020, we had approximately $11,200 of repair on some road because there was road damage, that the Board and Road Committee felt could not wait for the next Chip Sealing. Charges to this account include repair resulting from a damaging freeze, washout, or other acts of God. Also damage from construction equipment, overweight vehicles, careless or reckless drivers, and so forth is charged to this account. Some damage may be recoverable from the perpetrator, but it may be expensive and difficult to collect. We will cap this fund at $60,000 and replenish it at a 21,000/ year rate. This is another account that is not likely to reach the cap. History shows us that we have expenses in this category every year.

## Drainage Repair

This is the fund that will accumulate to cover drainage issues. Drainage repair includes work that manages the flow of runoff so as to prevent a washout or other erosion of the roadway. Although we have very limited experience in this area at the time of this writing, it is apparent that drainage problems are possible, and some could be expensive. We will cap this fund at $15,000 and replenish it at

a $1,200/ year rate. This is an account that may be subject to either topping out or excessive expense. Future Boards will have to adjust the cap and replenishment rate to suit the circumstances they experience.

## Emergency Fund

This fund will be used as backup funds for the other accounts and for an emergency not included in the other accounts. Examples would be a cost overrun of abnormal road repair or entry gate damage exceeding our insurance or defending a legal action of some kind. We will cap this fund at $30,000 replenish it at a $6,000/as needed.

## Unallocated Earnings

This is a fund not allocated to anything. We will keep this to a minimum and it should be zero most of the time. If the above funds are fully funded, this fund will build quickly. Future Boards must monitor the cash accumulation in this fund and the caps and rates of replenishment in the other funds to avoid excesses. If this occurs, the Board may declare a dividend or reduce the assessments. As we develop more history with this approach, future Boards may adjust the plan to suit actual experience.

## Inflation

The figures presented in this document are 2020 dollars. The need to alter these figures along the lines of current inflation is certain. Each budget year, the Board will consider inflationary trends and apply that to each of the above accounts to set new caps and replenishment rates.

## Funds Transfer and New Accounts

Occasionally, there may be a requirement to transfer funds from one account to another existing account. There also may be a time when a new account is desired. While these are permissible actions, this policy requires Open Board action to accomplish it. The proposed transfer or new account must be listed on the agenda and debated in open session allowing for membership input. The membership does not vote on these issues but it retains the right to replace the Board.

## Net Income

Net Income on the Balance Sheet is an account that reflects the total of the actual income and expense to date and it ties directly to the bottom-line current P&L figure. This number goes high as dues checks are received in January and July and it bleeds down as expenses are made against it throughout the remaining months of the year. At the end of the year, this account is merged into the remaining equity accounts, namely the above retained earnings accounts, and it is set to zero.

## Annual Review

This policy includes a requirement for the Board to review last year's financial performance, allocate Net Income to the Retained Earnings accounts as described above, and make any changes to the plan deemed appropriate by the Board, including the inflationary effects mentioned above. This review will be done in the January Board meeting each year. Allocation of Net Income and changes to this plan requires proper Open Board action and documentation in the minutes.

## Consequences to Members

It is important for future Boards to keep in mind that these funds are specifically earmarked. Use of these funds for purposes other than described above must not be allowed without proper open Board action. For the member, the money paid into these accounts places the POA in a strong position for performing perpetual maintenance of the common areas. This should reflect in property values or, at the very least, make a property easier to sell as the prospective buyer becomes aware that the POA is developing and maintaining a solvent financial position. For instance, a high level of funds in Preventive Road Maintenance should reflect on property values the same as freshly resurfaced roads. Without these reserves for certain of the above expenses, the Board may have to levy special assessments that could run from a few hundred to several thousand dollars per lot. Many people could find themselves in a difficult position when such an assessment is made and so the Board is not in favor of this approach to long term financial management. By comparison, this policy makes a gradual buildup of funds in the above categories a nearly painless process.