

**Meadow Wood Subdivision Homeowner's Association
Board of Directors Cash Reserves Policy**

This is the first 5-year update of the original Cash Reserves Policy which was dated February 7, 2018. The update identifies unplanned, unbudgeted expenses incurred by the HOA during the last 5 years as examples of why it is prudent to have a cash reserves policy. It also identifies the addition of commercial property insurance during the last 5 years to cover damage to the block-and-stucco monument entrance signs, such as an incident caused by an uninsured motorist.

Overview

It is the intent of the Meadow Wood Subdivision Homeowner's Association (HOA) Board of Directors (Board) to maintain a prudent level of cash reserves as a safeguard against unanticipated income loss or unplanned expenses; especially expenses of a catastrophic nature that would require a significant cash outlay and perhaps necessitate a Regular Assessment (annual dues) increase, a Special Assessment or an Extraordinary Assessment, as provided in the HOA's Covenants, Conditions and Restrictions (CC&Rs), if reserves were not available.

Risk assessment

Income Loss

The Board assesses income loss as a very low risk. The annual Regular Assessment (dues) is a legal obligation of each property owner and, if an owner does not pay the dues, the HOA is able to place a lien on the property which, with the exception of foreclosure sales, guarantees payment when the property is sold. Historically, the vast majority of homeowners pay the annual dues and there are very few liens placed each year.

However, if an increase in the amount of annual dues or a Special Assessment is warranted in the future to cover increased operating costs, there is a risk that the HOA membership will not approve a rate increase, as required in the CC&Rs; thereby creating (or increasing) an annual operating deficit, which could reduce and eventually eliminate cash reserves. Per the CC&Rs, if the HOA membership does not approve a Regular or Special Assessment, an Extraordinary Assessment may be levied by the Board of Directors as and when necessary.

Unplanned Expenses

Two lots (Lots 9 and 33) in the subdivision have been conveyed to the HOA in a fee simple estate. The HOA is responsible for landscape maintenance of these lots and any repair or replacement of adjacent sidewalks. The HOA is also responsible for landscape maintenance of a utility and sidewalk easement along Cloverlawn Drive. Additionally, the HOA is responsible for landscape maintenance of Lot 34, which is owned by the City of Grants Pass (City) and on which is located a pump house for the City's water system. In exchange for the HOA providing landscape maintenance of this lot, the City provides irrigation water service at no cost for the adjoining wetland and detention pond (located on Lot 33) per Letter of Agreement between the City and the HOA executed February 5, 2010. Other than maintenance of the aforementioned areas, the HOA is only responsible for periodic maintenance (painting) of two block-and-stucco monument signs at the entrance of the subdivision on Haviland Drive

and maintenance/replacement (if needed) of several wood and metal signs identifying the HOA common areas and advising passers-by to enter at their own risk.

Other than the aforementioned signs and sidewalks, the HOA is not responsible for any structures or improvements. There have been previous incidents of vandalism to common area and Cloverlawn Drive trees and one common area sign, resulting in several hundred dollars of damage. In addition, in 2017 there were several instances in which unplanned and unbudgeted landscape work needed to be performed in the common areas including removal of a large pine tree that fell as a result of heavy rain and strong winds; thinning and pruning of other trees in the wetland area, along with Mycorrhizae treatment to improve water absorption; and repair of the drip irrigation system along Cloverlawn Drive. This unplanned but necessary work totaled \$2,360. During 2017, the Board also decided to proceed with repainting of the entry signs, as the signs were deteriorating in appearance, along with re-landscaping of the area adjacent to the Cloverlawn Drive entry sign, at a total cost of \$3,110. In 2018 through 2022, unplanned and unbudgeted work included an upgrade to the Lot 33 wetlands irrigation system, replacement of a leaking water valve and an irrigation station clock, repainting of all fire hydrants and removal of a dead tree from a common area at a total cost of \$1,980. Although this work was not included in those years' budgets, the Board determined that it was prudent to have each of these items of work performed and to use reserves as the funding source.

The Board assesses potential risk from future tree damage as moderate, with tree removal/replacement cost ranging from \$300 to \$1,000 per incident. The Board assesses potential risk to HOA signs as a result of vandalism or accidental damage as low-to-moderate, with the cost of repair from a single incident ranging from \$100 to \$1,000. The Board assesses the potential risk from future repair or replacement of sidewalks adjacent to HOA-owned lots to be low, with the cost to repair or replace ranging from \$500 to \$1,000 per occurrence.

Catastrophic Loss

The only catastrophic loss that can be foreseen in the common areas is geological or seismic activity that would undermine the terrain and potentially require re-grading and soil reconfiguration of the properties, as well as possible sidewalk and drain pipe repair or replacement. The likelihood of such event(s) is believed to be extremely low; although such event(s) could cost several thousands of dollars to remedy.

Insurance

The Board maintains the following insurance: liability insurance of \$2 million aggregate (\$1 million per occurrence) on the common areas to protect against personal injury claims for non-HOA members; Directors and Officers liability insurance of \$2 million that covers current and former Board members and any members of committees appointed by the Board including but not limited to mis-use or theft of funds; and commercial property insurance of \$5,000 per incident to cover damage to monument entry signs, such as an incident caused by an uninsured motorist

Conclusion

Based on the foregoing risk assessment, the Board believes that a prudent level of cash reserves is one and one-half (1 ½) times the annual budgeted operating expenses and hereby continues the original 2018 Board policy of maintaining cash reserves at that level. Budgeted operating expenses for 2023 are

\$11,500 which results in a Cash Reserves target of \$17,000 (rounded). Further, it is the Board's continuing policy that cash reserves should not fall below a minimum threshold of \$17,000, regardless of the size of the approved annual operating budget. Should reserves fall below the \$17,000 level, it is the Board's continuing intent to increase annual dues in the subsequent year (subject to HOA member approval) to allow the reserve fund to be replenished at the specified level.

Implementation Strategy

The Cash Reserves have been maintained at one and one-half (1 ½) times the annual budget operating expenses since 2020 and the Board will continue to strive to maintain them at that level, which is expected to require a future increase in annual dues, subject to approval of the HOA membership as specified in the CC&Rs. Failure of the HOA membership to approve a future increase in dues would jeopardize the target reserve level.

Future Policy Review and Updates

Recognizing that there may be changing circumstances and unforeseen events in the future, the Board will review and re-evaluate this Cash Reserves Policy no less than every five (5) years and make any adjustments that are deemed appropriate to maintain the HOA's cash reserves at a prudent level.

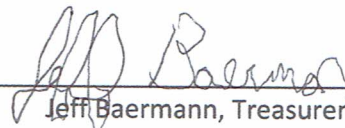
Approved by the Meadow Wood Subdivision Homeowner's Association Board of Directors this 7th day of February, 2023.



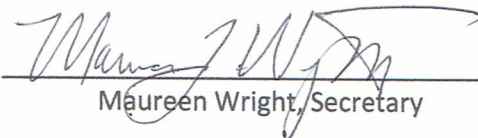
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