Reserve Funds Explanation

9.15.26

1. Purpose of Reserve Funds –
    a. Reserve Funds are intended to replace long-term assets which are generally subject to tax depreciation over time. Some examples are:
        i. Buildings
        ii. Equipment (like tractors, not shovels)
        iii. Bulkheads
        iv. Roads – We will talk more about that further on.
    b. These assets can be addressed in four different ways listed below from most expensive to least:
        i. Deferred (ignored) – the community deteriorates overtime often making the problem worse, and more expensive. The cost is shifted to future property owners.
        ii. Loans - fund improvements and interest on the loan. The cost is shifted to future property owners, who must pay off the loan.
        iii. Special Assessment – The community votes for a onetime assessment to pay for the improvement, Current homeowners bear the burden of paying for this.
        iv. Reserve Funding – Paid for out of the reserve fund, which we are currently receiving about 4% interest, the interest helps pay for the repair, making it the cheapest option. Because it is funded over the life of the asset Past, Current and Future Homeowners all contribute to maintaining the asset.

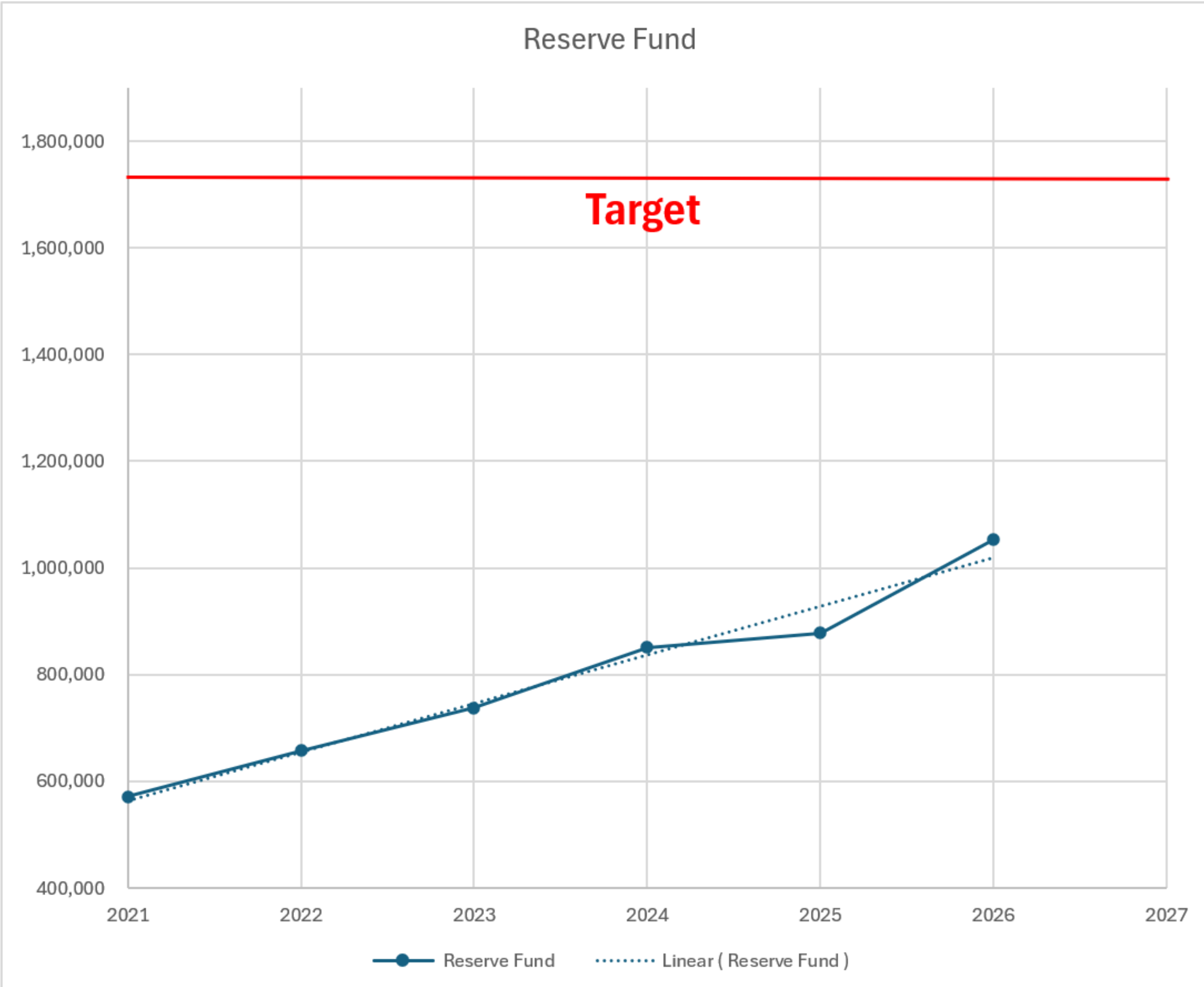
2. What is the current discussion about
    a. We maintain two pools of money:
        i. An Operating Account for monthly expenses, and which must be balanced each year.
        ii. Reserve Accounts – For the maintenance and replacement of long-term assets. We have recently done the following using reserve funds:
            1. Resided and roofed the maintenance building, Clubhouse/Office, Guard Shack.
            2. Repaved streets most notably in the Modular Section and on Lee Ct, and Harbour View Dr., The Modular Section, and Harbour View Dr. were done in a timely manner, which minimized the cost. Lee Ct. has been deferred in the past and therefore required a more expensive repair.
    b. The divergent opinions about this are in brief:
        i. Treasurer overspent the operating budget by more than 15%. Specifically an additional 7% for a total of 22%, and this is a violation of our bylaws.
        ii. I, the Treasurer believe and our CPA agrees that expenditures from the Reserve Account do not constitute an operating expense, and therefore do not exceed the 15% cap.

3. What can we do going forward
    a. Transfer from the Reserve Account to the Operating Account to remove the perceived overspending. I believe this would not be in the best interest of the community as it would increase the likelihood that we would need a special assessment. This would reduce our reserve account by approximately $80,000.
    b. Leave things as they are and implement a budgeting process next year specifically for the Reserve Funds, This was suggested at the most recent meeting held on September 16, 2026, and it seems like we should do it regardless.
        i. This budgeting process cannot be implemented until next year.
            1. Which means once again we would be removing approximately $175,000 from Reserves Funds without a “Reserve Budget”

4. Lastly, I have Included a graph of where our Reserve Funds have stood over the past 6 years. See below.
    a. This year the reserve fund in addition to the increases due to inflation, had the following items added which have historically been ignored.
        i. $190,000 allowance for roads. This has historically been ignored despite being our biggest single asset at over $5.4 million dollars.
        ii. Clubhouse/office Windows were added for $92,700.
        iii. Clubhouse/office Bathroom Remodel were added for $23,400.
        iv. Clubhouse/office Plumbing was added $50,000.
    b. The red line on the chart is our target for fully funded $1,762,742. We are currently at $1,048,422 or 59.5% of fully funded. This us in the medium category for the possibility of needing a special assessment.

Submitted by Mike Hutchinson

CHA Board Treasurer


Reserve Fund
Target
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
2021
2022
2023
2024
2025
2026
2027
Reserve Fund
Linear (Reserve Fund)