

# FAQ - HLE Reserve

## What is the Purpose and Benefit of a Reserve Fund?

- To incrementally build funding over time for the maintenance, repair, and/or replacement of the Association's existing assets. The goal is to have the funds available at the needed time as assets reach the end of life and must be replaced. Having a Reserve is a best practice and has been adopted by many HOA's and is even required by law in some cases. Having funds in the Reserve will build funds for costly replacements over a number of years rather than bearing the full impact within a specific year. Establishing a Reserve should reduce the need for Special Assessments and reduce variations in Annual Dues.

## What Would the Reserve Funds be Used For?

- Reserve funds would be used to maintain, repair, and/or replace the Association's existing assets which need to be addressed due to deterioration or even failure. Examples of such items that should be saved for over time include entrances, signs, landscaping, pavement, roads, curbs, lakes, and fences.

## What is Not Included in the Reserve Fund?

- The Reserve Fund, if approved, will be in addition to the Annual Assessment. Reserve funds will not be used to build new capital assets (for example, building a clubhouse at the park, which would be considered a substantial capital addition requiring a vote of the Association).

## What if Future Boards or the Association Votes to make a Substantial Improvement to an Item which is already Planned for in the Reserve Fund?

- The funds collected for that item would be applied to that item, which would reduce the expense incurred. For example, if Reserve Funds are allocated for future road repairs such as a Mill and Cap and some years later the Association votes to Rip and Replace, then the funds collected in the Reserve fund would be used to reduce the County assessment for Rip and Replace.

## What if a Future Board or the Association Votes to Discontinue the Reserve Fund?

- The standing Board at that time would have discretion how to dissolve the funds which would likely be returned to the Association members (lot owners of record) at that time. If a lot has a past-due balance or is in poor standing, then the past-due balance may be reduced accordingly.

## What if Future Costs for Items in the Reserve Fund are more than what was Anticipated?

- The Board maintains a small contingency as of 2022 to cover unforeseen items and adjustments. Future Boards will revisit and reassess the Reserve Fund to make adjustments for inflation, current conditions and current best practices. If a project is deemed necessary within a calendar year where sufficient funds are not available, then the two remaining mechanisms are (1) a Special Assessment or (2) Deferral of the repair to be included in the next year's Annual Due.

## What is the Reserve Fund Based on?

- A previous Board commissioned and paid for a third-party, licensed reserve study which specifically addressed Heather Lake Estates and identified the needs of the Association over a 40 year period. A Reserve study is considered best practice for HOA's to prepare for future expenses.

### **Is the Reserve Fund Vote a Vote on the Third-Party Reserve Study?**

- No. The Board used the Reserve study as a basis and would make adjustments, removing items which it considers requiring a vote.

### **Do other Associations use Reserve Funds?**

- Yes, Reserve Funds are a standard, considered best practice and, in some states, may be required by law. In Michigan, Association Reserve funds are not required. However, Michigan law does require Reserves for Condominiums.

### **How Would Reserve Funds be Invested and Protected?**

- The Board has adopted policies and procedures consistent with nonprofit management of funds as required under Michigan law. Reserves would be held in a conservative, interest bearing account (e.g. Savings & Money Market Accounts and CD's) with a FDIC insured institution(s).

### **If I Sell My Home / Lot, then will my Contributions towards the Reserve Fund be returned to me?**

- No. The Reserve would remain intact and transfers with the property.

### **Can the Association Establish a Reserve Fund?**

- Yes. The Board obtained legal guidance with the recent road project that the CCR's allow for a Reserve. Article VII, Section 2 of the Declarations provides that Assessment income can be utilized for, among other things, the maintenance, repair, replacement and additions to any of the Common Areas.

### **Is a Vote Required in order to Establish a Reserve Fund?**

- No. The Board could establish a Reserve Fund without a vote. However, in order to maintain transparency and have this be a community effort, the Board decided that a vote is a better path forward to help make Heather Lake Estates the premier subdivision that it once was.

### **Would the Reserve Fund Assessment be the same Amount for Each Lot?**

- Yes, because the Association Bylaws require that the same amount be levied to each lot and do not allow for differential calculations.

### **If the Reserve Vote Fails, then what happens to the Association Assets?**

- The Board will continue to maintain and repair the items as it is required to do so. This may result in significant swings from year to year in annual dues in order to fulfil this obligation, as expenses would need to be fully funded in any given year with no Reserve funds available.

### **How will Association Members know how the Board is Spending the Reserve Funds?**

- Any use of reserve funds will be communicated to HOA membership in advance of the expenditure. The Reserve fund will be accounted for as a separate financial statement from the annual Association financials. The status of the Reserve fund will be reported in the semi-annual financial reports that are posted to the HLE web site.