

CONSEQUENCES OF UNDERFUNDING OF RESERVES

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Below are the 5 key consequences of underfunding the operating and reserve accounts in an HOA that many members of the board don't understand:

1. Deferred Maintenance: It costs less to do it now than when the maintenance is deferred, and the Board must pay more because it is in worse shape.
2. More Expensive Repairs: Because the item has deteriorated, it will cost more to put it back to an acceptable shape.
3. Reserve Assessments: Even though it is legal for the board to assess one of these without homeowner approval in Nevada, it is not the best way to fund the reserves to pay for items that need to be fixed. By law, the money should have been building up years ago so that the money is there now when it is needed.
4. Unhappy Owners: Some owners are just scrimping by and a reserve assessment could kick them over the edge into serious money problems. Some boards say, "they shouldn't live here then", but that is unacceptable if the board had been doing their job all along.
5. Lower Property Values: Because the property reflects the deferred maintenance, the property value will reflect it as prospective buyers don't want to buy in a property that looks bad with a potential Reserve Assessment pending in the future.

As Fiduciaries, the board has the legal responsibility, by Nevada law, to maintain, protect and preserve the assets of the community. Not maintaining the property and putting funds away to do so in the future is a violation of Nevada law and the board could be turned into the Nevada Real Estate Division for this violation.