

Get advice from expert on reserve fund needs

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Q. I am the board secretary for a condo community on Lake Norman. We have 60 units and are about 25 years old. We strive to keep everything in good order but things happen. My question concerns setting amounts for reserve funds.

We have looked into having a professional "reserve study" done but the cost, from \$4,000 to \$5,500, is expensive for us. Do you have a rule of thumb that might give us some guidance? Is there a Web site that you can suggest for me to search? Are there reserve requirements in North Carolina as there are in some other states that set limits?

Most HOAs that have clubhouse/swimming pool, trails, athletic fields, etc. have capital accounts, also known as reserve funds, to pay for upkeep and replacement. Condominium associations are responsible for maintaining the buildings themselves, so capital reserves are absolutely critical for them. Most HOAs allocate a portion of each month's assessment income to these accounts.

Planning for reserve funds requires skill and experience, and unless your capital needs are minimal, I strongly suggest that you spend the money on a qualified "reserve specialist." These professionals are often licensed engineers, and have the skills necessary to evaluate the remaining useful life of your capital assets and what it will cost to replace them.

This requires knowledge of construction materials, costs, and techniques, construction industry and architectural trends, and the accounting background necessary to perform the financial analysis. There are no statutes in North Carolina that require reserve funds for any planned community or condominium association, but a board of directors that fails to perform this necessary planning is probably not fulfilling its fiduciary duty.

Other states have specific requirements for reserve studies, especially for condominiums. Proper reserve planning will help you avoid the dreaded special assessments necessary when you find that your 20-year-old clubhouse roof has suddenly sprung multiple leaks, and you realize you don't have the funds for a new roof.

While I suppose it may be possible to do your own reserve study, you need to ask yourself if the members of your board of directors have the skills to perform this important task.

If so, the Community Association Institute has publications available that will help guide you through reserve planning. Visit www.CAOnline.org and search for "reserve study."



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