

APRA Advisor

Association of Professional Reserve Analysts (APRA) is a nonprofit corporation established in 1995 by principals of America's leading reserve study companies. The purpose of APRA is to provide a forum to establish a common base of knowledge, standards of care and professionalism within the reserve study industry.

The **APRA Advisor** is a bimonthly publication designed to expand the understanding of reserve planning and increase awareness of **Professional Reserve Analysts**.

Nuancing the Numbers

Accountants are not known for their creativity, or at least shouldn't be. However, when it comes to homeowner associations, accounting methods could use some creativity. Too often, last year's numbers are mysteriously morphed into this year's budget and *away we go!* Let's look at other such budgeting plans:

- ⊗ **Head in Sand Plan** Use last year's budget and decide "worked then, works now!"
- ⊗ **Wrist Slashing Plan** Take last year's budget, realize that costs have gone up, and start eliminating unnecessary costs like the Landscape Contract, Irrigation and Oxygen.
- ⊗ **Government Plan** Use last year's budget. When the money runs out, stop spending and close the operation down.
- ⊗ **Banana Plan²** A peel to a Higher Power.

Even though budget numbers don't have quite the same nuances of words, how and why they are used has an enormous impact on the well being of the homeowner association. There is a creative process that should be followed to ensure thoughtful results. That process should be guided by this principle: The budget must be adequate to properly maintain the biggest and

most important investment the members have (their home) and enhance the livability of the community in general.

To that end, a draft budget should be compiled based on the previous twelve month expenses as adjusted by known future increases in utilities and service contracts. To this is added a Wish List. Then, the budget is presented to the board for discussion. (Your HOA may also require member input and approval). The approved budget should be communicated to the membership a minimum of 30 days before the start of the new fiscal year to advise of any assessment changes. Some other important goals of creative money management:

1. Provide Adequate Detail. Your budget must be detailed enough to identify significant costs like fence, deck, painting, roofing, electrical and plumbing. Only if there is a breakdown can trends be tracked. If plumbing expenses are much higher than normal, find out why. If there is a weak link in the plumbing system that is bound to fail again, the budget can provide **preventive** maintenance rather than **reactive** maintenance. This way, you can avoid costs for cleanup and disruptions that floods always cause.

2. Spend Wisely. Many budgets are inadequate to the tasks they were designed to handle. Sooner or later the property shows it, market values and livability declines. Do not try to do this on the cheap. The board is not elected to keep assessments as low as possible. The charge is to manage HOA business efficiently to get the best value for maintenance and services. Spend, but spend wisely.

3. Follow a Reserve Plan. Having a long range schedule and funding plan for future repairs and replacements is one of the most important parts of the budget. A 30 year projection along with a monthly funding plan is the right way to go for all condominiums and homeowner associations.

4. Communicate to Membership. Invite them to attend the Board Meeting where the budget will be approved or hold a special meeting. Answer all the questions clearly. Garner member support early to eliminate challenges later.

5. Produce Regular Financial Reports. The board and manager can track revenue and expenses and make changes as needed rather than waiting until it's too late. Distribute the financial reports to the members.

6. Enact a Collection Policy. There is no government bailout for HOAs. If one member fails to pay, the rest will have to or you must cut services. The longer you wait to collect, the greater the chance of not getting it. And if you have no money to pay the bills, just think how "creative" you'll need to be.

Money is the lifeblood of an HOA. You need it to survive but with a bit of creative accounting, your HOA can thrive. Nuance your numbers and see.

By *Rich Thompson* - www.Regensis.net

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A Case For Reserves

How often do you hear “Why do we need reserves? After all, this homeowner association (HOA) is only a few years old?”

It became very clear to me how important it is to put reserve funds aside from the moment an HOA is established. A few years ago while working as a General Manager of a 1300 unit condominium conversion in Northern California, major repairs became necessary and urgent. The 32 buildings were approximately 25 years old. There was almost \$2,000,000 in the reserve fund and the budget allowed for continual funding on a monthly basis. However, this funding did not begin until years after construction was completed when state law made it mandatory. The law required that an HOA must have reserve funds and that those reserves must be adequately funded.

The Problem Begins. It began when 13 units were flooded due to a sewer backup. A meeting was arranged for all of the displaced residents, the insurance adjuster and a contractor immediately. As expected, the residents were upset and could not understand why they were not being allowed access to their homes. The health hazard of sewage water was explained along with the fact that they would not be able to return to their homes for six to eight weeks. Tempers flared once the board, after reviewing the governing documents,

informed them that they would also have to pay for their own lodging throughout the renovation process.

After a lot of negative feedback, the board made the decision to advance the necessary lodging costs hoping that insurance would cover the cost. Funds to commence repair were withdrawn from the Reserve Fund.

Another Flood, More Expenses. A few months later, three units in a totally different area were flooded. The same contractor working on the original 13 units were called in to dry out the flooded areas and start remediation. The insurance company was once again contacted and the entire claim process began on these three additional units.

More Flooding, More Expenses. Within six weeks, a main water line burst and 44 units were flooded including three units previously damaged from the sewer backup. This time, fortunately, the broken water line belonged to the City which was called to repair the line. Both the City's and HOA's insurance companies were contacted. The same contractor who was working onsite was brought in to dry the units. Due to the flooding, all units had to be stripped down to the studs plus cabinets and flooring removed.

Although the HOA was fortunate to have adequate insurance to cover a major portion of each of these emergencies, a great deal of the expense was not covered and reserve funds declined rapidly.

Mysterious Holes. While doing my weekly property inspection, I noticed holes in the stucco walls that appeared to be vandalism. The holes revealed a mysterious black substance inside the wood structure. The black substance turned out to be mold and dryrot. About the same time, reports were coming in regarding some of the cantilevered balconies that had dropped an inch or two.

Engineers Called In. The board decided to bring in experts to study both the walls and the balconies to make recommendations for repair and to write the specifications so bids could be obtained. At this point, the health and safety of those affected residents was of great concern.

Bids were obtained from four different engineering companies and a contract was awarded to the low bidder at \$56,000. Arrangements were made for the engineers to have access to all second and third story balconies for inspection purposes. A detailed description of the condition of each balcony was noted, including a rating system to determine the priority in which these balconies would be repaired. As a result of the inspection, a dozen balconies were immediately closed off due to unsafe conditions.

The study revealed dryrot and mold behind the walls where the small holes had been made. It was thought that the water came from roof leaks and poor drainage. The holes in the walls were created by the cable company installing cable to individual units. The exterior walls were coated with an elastomeric paint which did not allow water to evaporate when it got behind stucco.

Termites. All of the dampness had attracted termites. A termite specialist was brought in and the treatment of all buildings cost over \$100,000.

Tree Roots. Tree roots were also invading cracks in the drain pipes which required new lines to replace the old ones.

The Repair Estimate. The board finally received the completed inspection report from the engineers and the repair estimate totaled \$18,000,000, none of which was covered by insurance. The board was divided on how the repairs should be paid for, special assessment or bank loan. Some even questioned whether such an enormous repair process was practical to undertake.

Lack of Action Plan. It took the board *four years* to schedule the repairs which multiplied the repair cost. This delay and failure to provide regular and adequate maintenance and repairs mushroomed costs into a financial nightmare of Biblical proportions.

Moral of the Story. Many HOAs do not set aside reserves because the law does not require it. This true story illustrates that failure to do so has catastrophic results. Reserve planning is not optional. If money is not systematically set aside and renovation



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done at recommended intervals, bad things *will* happen and sooner than you would imagine. The advice is simple: Plan ahead and fund reserves!

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Fruits of Delegation

Have you ever caught yourself doing work for the homeowner association and resenting it? There are many excuses for not delegating responsibility. Do any of these apply to you?

- I can do it better myself.
- Others won't do it right.
- No one is qualified but me.
- I have the time.
- Everyone else has enough to do.
- It's faster to do it myself.

At the core of many of these excuses is mistrust of others. While it's true that you may be able and qualified to get the job done, getting others involved makes the outcome radically different than the mere act of completion. HOA

business is not just a series of jobs to finish, it is creating and sustaining an *integrated community*. This requires many members to participate. A community of one just won't cut it.

Delegation is more than passing work on. There must be a screening process that ensures that tasks are worthy of doing at all. Here's how to pare down the list and encourage others to step forward:

- Not all tasks are necessary or important. Delete those that aren't both.
- Don't accept requests that require extensive research. If a someone has a bright idea, encourage them to research and present it to the board for consideration.
- Pay a mailing service or print shop to copy, collate, fold, stamp and label HOA correspondence or consider providing the material in digital form to eliminate the time and expense of mailing.
- Hire a bookkeeper to keep the books, pay bills, make deposits and produce financial statements. You might be surprised how cost effective (cheap) this is.
- Assign tasks based on expertise. In every HOA, there are some that excel in landscaping, maintenance, accounting, social events and other tasks. Most people are thrilled to share something they have a passion for. If you don't know who they are, ask around.
- Hire a management company. If your HOA is self managed, ask yourself why you are performing many hours of free work for the rest? Boards are elected to hire and supervise competent people, not to do the actual work. Expertise costs money but when the cost is spread out is affordable for one and all.
- Offer education. Paying for board training in HOA matters will encourage volunteers. This is not a perk. It is an investment in board success.
- Recognize volunteers for effort, even if their work isn't perfect. Positive recognition improves performance.
- Delegate authority. Other than major decisions, authorize the delegate to make all others. That promotes trust.
- Let them do it. Resist micro-managing and nitpicking. Another trust builder.

A reserve study is a fundamental planning tool that every homeowner association needs to function properly.

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When delegating tasks, communicate clearly what needs to be done, the time frame and what degree of detail is needed. If you need a only rough estimate, say so. If you need a detailed proposal, say so. Delegate the objective, not the procedure. For larger projects, ask for progress reports on specific dates. Many people work best with deadlines.

Delegation is not abdication. The board is responsible to see that tasks are performed properly. That means staying informed and checking the work when completed. Harvesting the fruits of delegation is a liberating and rewarding experience. The more trust is put in others, the more others yearn to earn that trust.

By *Rich Thompson* -
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Fall Lawn Order

Ahhh....the fall leaves are turning colors and there is a nip of winter in the air. Before you get too mesmerized, remember that there are some important prewinter landscape preparations yet to get done.

Irrigation Systems need to be turned off and winterized. Leaving the clock on could damage the irrigation system if the power is interrupted during the down time. In some models, the batteries would put the controller into

default mode and prompt the solenoids in the valves to "dry-fire" as the clock cycles over and over again. To guard against this, it's best to disconnect the power to the clocks and remove the batteries.

Next, the water supplies must be turned off at the gate valves. Then, open the drain valve to allow water to drain out of the system. While properly installed systems should drain completely, the only way to ensure that this is the case is to blow out the system with compressed air.

Fertilization Shrubs should receive a good 10-10-10 shrub fertilizer and lawns a Fall and Winter fertilizer like 10-7-14 "slow release". This blend of fertilizers will feed the roots without forcing new growth on the leaves. This should keep your lawn and shrubs looking healthy during the winter.

Moss Control Lawn moss becomes active in the Fall and Winter. Moss occurs in areas of poor drainage, shade and heavily compacted soil. To counteract moss, prune trees to reduce shade, aerate lawns to relieve soil compaction, provide improved drainage and apply a moss control product.

Clogged Roof Gutters Gutter overflow can cause a lot of damage to landscapes. Schedule now to have your gutters cleaned after the leaves fall, usually by mid December.

Correct Drainage Problems Water can become a serious problem in the Fall as the ground becomes saturated. A below ground drainage system can be installed to prevent water from accumulating in lawns and bed areas.

Inspect Trees Have a licensed arborist remove tree limbs that may come down in a winter storm. Prune back trees at least six feet from buildings and roofs.

Now's the time to get tough on lawn order. Give your landscape what it needs to weather the winter storms. Next spring, your landscape will be changed for the better.

By *Rich Thompson* -
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2010 PRA Member Recognition

We honor our latest General Member:

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One Letter Short

Technology is grand but when misused, even unintentionally, can have serious consequences. Consider the case of the man who left snowy Chicago for a vacation in Florida.

His wife was on a business trip and was planning to meet him there the next day. When he reached his hotel, he decided to send his wife a quick email. Unable to find her email address, he typed it from memory. Unfortunately, he missed one letter and his email was misdirected to an elderly preacher's wife, whose husband had recently passed away.

When the grieving widow checked her email, she let out a piercing scream and fainted. The email read: Honey, Just got checked in. Everything prepared for your arrival tomorrow. PS. Sure is hot down here. [APRA](http://www.Regensis.net)

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