

APRA Advisor

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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**.

Slow Economy Planning

A slow economy, down real estate market or higher than normal collections have a way of impacting how homeowner association boards approach big repairs and replacements. The inclination is to delay and defer. HOA boards often refer to their reserve study for guidance in determining which projects are essential. The "condition assessment" contained in a reserve study should have sufficient information about critical conditions on big ticket items that justify the need for replacement. If these critical conditions do not exist, replacement in total may not be needed. An update to your existing reserve study will revisit the condition assessment to determine which common elements are critical or in need of immediate replacement. Your reserve study provider can provide additional key independent advice toward making these informed decisions.

It is essential to choose a reserve study provider who truly understands the HOA's financial limitations, can describe in a narrative report to the board the condition of the common elements, and can prioritize capital projects to best serve the homeowners. Here are some tips to assist you in selecting a professional reserve study provider.

• Who's Doing Your Reserve Study?

When retaining a reserve study provider, it's important to know the background and experience of the company. Asking a few simple questions can help you select an experienced and reputable provider.

• Does the company have full-time employees or use subcontractors or other industry experts?

What are the credentials of their employees? Are they a registered professional engineers or home inspectors? Do they hold professional designations such as Reserve Specialist (RS) or Professional Reserve Analyst (PRA)? These credentials confirm that your provider has relevant education and speaks volumes about the expertise of the company and staff.

• Does your "expert" specialize in reserve studies?

Ask "what percentage of the company's work relates to reserve studies?" Go with company who specializes in reserve studies versus one that does reserve studies as a sideline. Experts who specialize in reserve studies impart their knowledge gained from success stories of other communities. Go with the expert!

• Is there a conflict of interest surrounding your reserve study?

If a roofing contractor told you that your roof needed to be replaced would you consider him biased? It's important to have your reserve study conducted by an independent third party. If your reserve study provider has no vested interest in the outcome, the results of the study will be an objective opinion, free of any real or perceived conflict of interest. Conflict of interest can also occur if the person who conducts the reserve study manages capital projects or sits on the board. Advice garnered in this manner may not represent your HOA's best interests. It's also wise to choose someone who does not live at the HOA. This helps to eliminate any hidden agendas for

pet projects or unwise deferral of a necessary project.

• What is the level of the staff involvement?

Are others from the firm, besides the inspector, involved in the analysis and review of your property? Look for a company which utilizes credentialed experts. Together, a team of specialists can determine the most accurate condition assessment and realistic funding plan. Pooling experience offers thorough, expert advice in addition to providing quality control.

Experience is a key. A credentialed reserve study provider should also demonstrate significant local experience through references of similar type properties. Local experience translates to expert cost-saving advice for your association. Ask if they belong to organizations that credential Reserve Specialists such as Community Associations Institute (CAI) and Association of Professional Reserve Analysts (APRA) www.apra-usa.com. Membership in such organizations indicates interest in staying on top of industry standards.

Reserve Study Proposal - The appearance and thoroughness of the Reserve Study Proposal is a good indicator of the professionalism you can expect from the reserve study provider. Does their proposal for a professional Reserve Study include:

- 30-year physical and financial analysis?
- Inventory of common elements with useful lives, remaining useful lives, future replacement costs, and a funding plan to establish sufficient reserves?
- Condition assessments with narrative descriptions of specific problems and solutions for each common element to maximize their useful lives and help define your capital spending programs

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for easy contractor bidding?

- Realistic yet adequate reserve fund contributions?
- Replacement costs based on local data and not national averages?
- Compliance with your state's condominium statutes and the American Institute of Certified Public Accountants (AICPA) Audit Guide?

Intangibles Have Great Value - Was the company responsive with the proposal? Do they return your calls promptly? Does the consultant listen to you? Do they deliver what they promise? These are all little things that when combined, provide both management and the association board a high level of comfort and trust that their choice was the right one.

Now is the time to carefully review the HOAs repair and replacement needs. Holding back on certain projects might actually do your homeowners association more harm than good. Opportunities to minimize reserve expenditures through competitive bidding may abound in this depressed economy. Selecting the right projects is

essential in a slow economy. Your reserve study can be a key tool in making these informed decisions.

By *Theodore J. Salgado* of *Reserve Advisors, Inc.* **APRA**

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Budgeting Tips

In order to operate a successful homeowner association, one of the most important aspects involves the budgeting process. Many HOAs are multi-million dollar corporations asset-wise. This means that the board of directors is often running a substantial business with all of the decisions, exposure, and liability that accompany such a task. As such, the board should seek and use expert advice to avoid costly mistakes.

As with any well run corporation, a budget must be prepared every year for the next fiscal year. In HOAs, a budget establishes how the revenue will be used to perform necessary maintenance and repairs. Typically, member assessments (fees, dues) cover all of the expenses necessary to operate. Therefore, budget preparation must be taken seriously and prepared with a detailed hand. The following are different variations of budget preparations that a board may use when performing this yearly task.

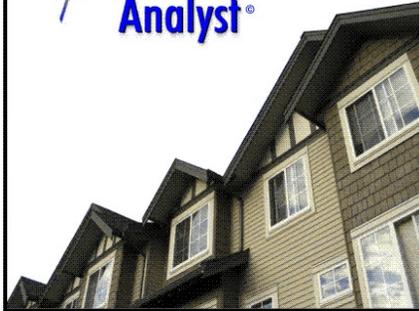
Developer Budgets. When a property is in the process of being built, a budget is prepared by the developer for the new homeowner association. The intent

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of a developer's budget is to ensure that the HOA is adequately funded when the developer leaves. Once the HOA transitions from developer to homeowner control, the board may consider other budget options.

Board Budgets. Most boards have either the Treasurer, property manager or a Budget Committee prepare the budget for the board of directors to review and approve. The budget should consider the following:

1. Review of all annual contracts to make sure the scope of work is complete and the HOA is paying a competitive price for services rendered. Boards may want to see what other vendors have to offer. However, it should take into consideration all facets of the current contract relationship including quality of the workmanship and responsiveness. Changing contractors for a few dollars savings may be a very bad decision, particularly when it comes to landscaping and management. If it ain't broke...

2. Review the past year's Income and Expense statements to get a clear picture of the HOA's financial position. Review actual versus budgeted. Having one full year of actual numbers is very valuable since it shows how the association is trending. If the HOA is new and does not have a complete year of figures to work from, the board should analyze known expenses. Contact all utilities for anticipated price increases and include that into the budget.

3. Review next year's reserve study. If you don't have one, get one. Reserve studies are only good for one year. It is important to make sure that reserves are properly funded so

that when a reserve component requires the necessary renovation, there is money to pay for it. When boards do not fund the reserves adequately, members will be special assessed for the shortfall sooner or later. When it happens, just watch the fireworks. This is all avoidable with regular and adequate reserve funding.

The result of the budget process should almost always result in a raise in the assessments if for no other reason but to keep pace with utility and inflation increases. HOAs are not immune to increasing costs and those that fail to keep pace will put the HOA in dire circumstances over time.

If your HOA is on a calendar fiscal year, the budget process usually starts in September or October with a draft ready for board review by no later mid November. Once approved, it needs to be distributed to all owners to inform them of the coming year's assessment. **APRA**

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

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APRA members provide high quality reserve study service throughout the United States, Canada and Australia.

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Contractor or Employee?

One of the traps homeowner associations fall into is hiring "contractors" that aren't legally contractors. Oh, they may claim they are, but just wait until they have a tax problem or injury and suddenly, the association has just gained a new employee, possibly with a lifelong disability. The IRS has a common law test to determine whether a worker is technically self employed or not. Most have to do with the customer's "right of control". The following are conditions that could lead to implied employee status. No one condition necessarily triggers it but if a number of them exist, beware.

1. Is the individual required to follow instructions?
2. Do you provide training to accomplish the work?
3. Is the individual regularly employed at association work?
4. Is the work done personally by the individual?
5. Does the association directly pay the individual's assistants?
6. Is there a continuing ongoing relationship?
7. Are there a set amount of work hours?

8. Is the individual engaged full time?
9. Does the individual work on the homeowner association's premises?
10. Does the individual work according to a schedule set by the HOA?
11. Is the individual required to submit regular reports?
12. Is the individual paid by time rather than by project?
13. Is he reimbursed for expenses?
14. Does the HOA furnish the tools and materials?
15. Does the individual have vested interest for performing the services?
16. Can the individual realize a profit or loss?
17. Does the individual work for more than one customer at a time?
18. Does the individual make his services available to the general public?
19. Does the employer have the right to fire the individual?
20. Does the individual have the right to terminate the relationship?

An important element is the ability of the customer to dictate not only the result, but also the process used. To safeguard the interests of the association, use only properly licensed, bonded and insured contractors unless the board consciously elects to hire an employee.

All contractors should produce a business license, liability insurance and/or a verifiable Construction Contractor Board number (if required by the state) to corroborate their claim. Are they listed in the Business Pages of the phone book? Do they have a business card? All these are signs of a legitimate contractor.

Use this 20 Point list to "filter" all new contractors so you don't get more than you bargained for.

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We honor new **Professional Reserve Analyst™** members to the organization:

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