

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**.

The Science & Art of the Reserve Study

Preparing the annual budget and overseeing a homeowner association's finances are perhaps the most important responsibilities of the board. It is also a primary duty of the board to maintain and preserve market values of member property. To do so properly, directors must develop a schedule and funding plan for future repair or replacement of common elements, such as swimming pools, decks, paving, concrete, fencing, signs, etc.

To fund future renovation, HOAs have several funding options, including

1. Regular assessments
2. Special assessments
3. Bank financing, or
4. A combination of 1-3.

#2 and #3 are needed only when regular and adequate assessments have not been collected.

Why Reserve Funds Are Necessary.

Owners are sometimes reluctant to contribute to reserve funds because they feel that these funds are an added cost of living. This is not true. Reserves are designed to replace assets as they are used up. When contributions are made, they pay only for the benefits received

by those that got the benefit, not for some stranger in the distant future.

Another recent trend is for lenders to require a current reserve study to approve a buyer purchase or owner refinance loan. Those that don't have it risk getting loans denied. This is becoming more common because recent history has proven that HOAs that properly plan and put aside reserves have a much lower loan default and foreclosure rate among members than those that don't.

Other reasons for creating and adequately maintaining a reserve fund include:

1. Fulfills the board's fiduciary duty
2. May be required by state law
3. It eliminates the need for unfair, unpopular and possibly uncollectible special assessments
4. Reserves enhance resale values, and
5. Accounting standards require reserve plans.

Types of Reserve Studies. There are three categories that describe reserve studies from an exhaustive to minimal level of service.

1. **Full Reserve Study** includes:
 - Component inventory
 - Condition assessment based on visual observations
 - Life and valuation estimates
 - Reserve Funding Plan and recommendation

2. **Reserve Study Update With Site Inspection.** Takes a prior year's Full Reserve Study and reviews component condition and updates the Reserve Fund Starting Balance, rate of return on invested funds, current inflation rate and known cost changes for certain repairs.

3. **Reserve Study Update With No Site Inspection.** The components are not physically inspected and only financial aspects of the study are

updated like the Reserve Fund Starting Balance, rate of return on invested funds, current inflation rate and known cost changes for certain repairs.

Component Inventory. The governing documents generally define which components are considered common elements. The standard is to include any component that has a useful life of 2 to 30 years.

Reserve Funding Methods. There are four funding strategies:

1. **Full Funding** is designed to attain and maintain the reserves at or near 100 percent every year. If, for example, a roof has a 20 year life and costs \$20,000, \$1000 should be reserved each year to maintain 100% funding. If the same approach is used on all components, reserves are maintained at or near 100% each and every year. This is the most responsible model since all members pay a fair share of expenses directly related to their time in ownership.

2. **Baseline Funding** keeps the reserve cash balance above zero at all times. This means that each component is not fully funded and the reserve balance can drop to zero during the projected period. This model is likely to result in one or more special assessments.

3. **Threshold Funding** is similar to Baseline Funding but sets a minimum reserve cash balance as the threshold of, say, \$50,000, instead of zero.

4. **Statutory Funding** is based on state statutes which may establish specific funding minimums.

Baseline and Threshold models contribute less to reserves (sometimes a lot less) which ultimately will result in special assessments to fill the shortfall. Planning to fund reserves by special assessments is not recommended because they are unfair to those must pay them and sometimes uncollectible

due to individual financial circumstances.

Understanding the Reserve Study.

The board should only use a user friendly reserve study so that all members “get it”. It is also *strongly* recommended that the reserve study be distributed to all members since they are entitled to know the recommendations.

Due to the experience required to perform an accurate reserve study, the board should only use specialists like those that hold the **Professional Reserve Analysts (PRA)**, the highest credential available in the industry awarded by the Association of Professional Reserve Analysts. See www.apra-usa.com for a list of members which carry this credential.

A properly prepared reserve study is both science and art. The science involves accurate costs, measurements and useful lives. The art recognizes the political dynamics of HOAs and members’ desire to protect their castles. **APRA**

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Board Under Attack!

From time to time, a homeowner association member will launch a take-no-prisoners war against the board because of some deeply felt issue. To these folks, the board represents the Devil Incarnate and is untrustworthy,

domineering and, worst of all, in control. This is intolerable to someone that wants what they want and they want it NOW! Sometimes, the individual is actually serving on the board which makes matters considerably more onerous.

The blitzkrieg tactics can be relentless. They harangue at board meetings, are personally abusive, write poison pen letters to other members which detail the board’s “crimes” in great detail. They are unyielding and uncompromising. Their objective is clear: to get rid of the board so that “something better” will take its place.

Boards under such attack get understandably apprehensive. (Hey, I’m a volunteer...I don’t need this kind of grief!) Most folks so attacked either flee from confrontation, despair or react angrily. Since this is war and not a simple difference of opinion, there are a variety of retaliations boards under attack may take:

Appeasement. Even though the attacker’s demands may be unreasonable, there may be an inclination to give them what they want so they’ll go away. Remember when England and French gave Hitler Czechoslovakia’s Sudetenland to make him go away? It’s important to consider the consequences. Know who you’re dealing with and whether this is a one issue or a multi-pronged attack. By appeasement, the board may well open the door for future assaults. Appeasement didn’t work for Hitler and won’t work here.

Concession. A concession is different than appeasement. It recognizes give and take within issues without running roughshod over principles. When conceding, the board should get written agreement on the terms. An example would be allowing a special exception architectural change like a ramp for disability access. The concession is granted only until the resident moves.

Compromise. When an issue is viewed in extremes, there is room in the middle for both sides to “save face”. Compromise may require professional dispute resolution when emotions are running high. Dispute resolution is also useful for defusing vendettas (revenge

for a perceived wrong). Professional mediators can assist warring factions to “make nice”. This is extremely important considering neighbors are involved. While you may not end up friends, establishing mutual respect is essential.

Don’t Return the Volley. One strategy is to refuse to fight. After trying reason, stop responding to inflammatory letters, emails and comments. Fight fire with silence or a statement like, “We obviously disagree on this matter but the board has voted and we intend to move on to other matters. We hope you will as well” pretty much says it. Prepare to ride out the storm. Most typhoons blow themselves out.

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Responding to Threats Depending on whether a threat is legal (I’m gonna sue) or physical (I’m gonna punch your lights out) the response is different. An owner or director suing the board is like shooting yourself in the foot. Assuming that the homeowner association has Director & Officers Liability Insurance (which it should), the coverage will pay for a lawyer to defend the board. The appropriate response might be, “Sue if you must, but insurance covers our legal defense. Who pays for yours?” When it comes to physical threats, waste no time. Call the police. This kind of behavior needs to be stopped cold.

Knowing your goals.

And the most effective way to meet them.

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Fire When Ready. Sometimes, reason took the last train to the coast. If the attack is coming from a board director, the board majority may need to consider stronger alternatives. A renegade director can virtually destroy the board with ongoing strife and conflict. While all directors need not agree on every issue, it is important to yield to the majority opinion. If a director gets “stuck” and refuses to move on, he may need to be culled from the ranks. Once the deed is done, it’s important to communicate to the remaining owners about the reasons the action was taken.

Call the Bluff If the attack persists, call a special owner meeting to get it all out in the open. The purpose of the meeting should not be to humiliate or point fingers. Often the attacker is shown to be a Lone Ranger and not supported by a majority of owners. Ask for a vote of confidence.

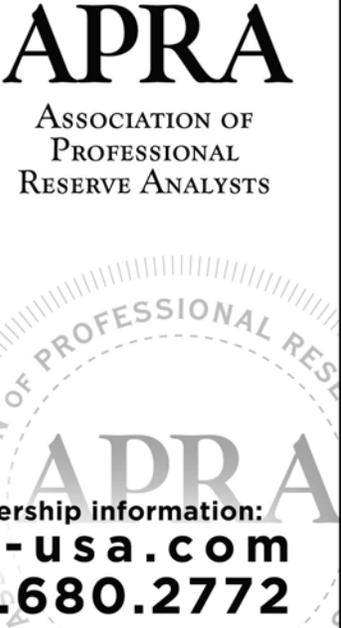
Bailing Out. Boards under attack may feel the urge to cut and run, resigning en masse. Sometimes this may be a strategic move to get an owner show of confidence. However, wholesale resignation generally plays right into the attacker’s hand and opens the door for all kinds of radicals to jump on the board. The welfare of the association depends on level headed and concerned volunteers. Letting a tyrant take control is the last thing you want. Resist the temptation to take the easy way out. Remember your property is at stake. Hold the high ground.

Regardless how you respond, strive for compassion, as difficult as it may be. A compassionate attitude will usually lead to the best resolution for all concerned. Kill the attacker with kindness. [APRA](#)

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

APRA members carry the Professional Reserve Analyst (PRA)TM credential which requires extensive education, years of experience and client references.

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



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For contact & membership information:
www.apra-usa.com
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Start to Finish Contracting

Your homeowner association may be faced with a renovation project which can involve a number of trades like carpentry, electrical, plumbing and engineering that must be properly combined for a satisfactory outcome. If the scope of work is large, it makes sense to use the services of a professional

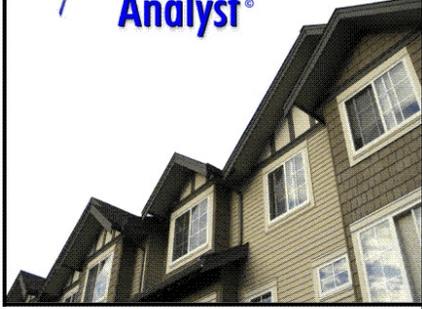
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Construction Manager (CM). Here are some of the reasons:

Speak the Same Lingo Contractors prefer to work with people who understand their trade. Making a profit depends on maximum production and efficiency from a work crew. CMs speak “Contractorese”.

Good Specifications A good CM provides the kind of specifications that allows subcontractors to be more price competitive. When dealing with laymen like homeowners, it’s common for subs to add a margin to compensate for potential problems resulting from inadequate specs.

Getting Material You Bargained For. Occasionally materials get “mistakenly” delivered to another job site or arrive in a lesser quality than ordered. Consider having your CM buy the materials direct and have them delivered to the job site. The CM will ensure you get what you ordered.

A Good Contract Include contract clauses that keep costly change orders to a minimum such as:

- Time frame for job completion
- Penalties for failing to meet the deadline
- Hours when work may be performed.
- Requirement for liability and workers compensation insurance
- Quality checks prior to payment
- Progress payments based on work completed
- 10% holdback pending final review

Don’t Advance Funds Associations managing their own

4



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projects, large or small, often fall into the trap of advancing money prior to work being done. Prepayment is a red flag. Contractors that require prepayment are often in financial straits or do not have adequate credit to purchase the materials needed for the job. Occasionally, contractors disappear with the money or pay another job's bills with it. There can be exceptions to this rule, like purchasing custom built windows or installing special order materials. If this is the reason for prepayment, have the materials delivered to the job site and pay the bill directly.

Lien Releases Lien releases are written and signed statements from the contractor that warrants all employees, subcontractors and suppliers involved in the job have been paid. Employees, subcontractors and suppliers have the legal right to file a lien on the property to which their labor or materials is attached. Don't tender payment without exchanging it for a lien release that transfers this liability to the contractor. Writing the check to both the contractor and supplier is additional insurance that it won't come back to haunt you.

Scheduling CMs handle the complex scheduling of various trades to ensure smooth job progress. Understanding the sequence of construction events is essential. CMs aren't afraid to apply pressure to speed up slow contractors,

(contractorese is "kicking butt").

Hold Back It's common to withhold 10% of the total contract pending completion of a "punchlist" gathered as result of a walkthrough by the contractor and CM. Don't release funds unless satisfied that the job is complete.

Construction managers are masters in piecing together complex projects and getting the best value for your money. There is too much at stake to risk trying to do this yourself. Don't go down this road without one. Get a CM involved in the planning stages to run the project from start to finish. **APRA**

2010 PRA

Member Recognition

We honor our latest **Professional Reserve Analyst™** members:

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LM Consultants, Inc.

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Sitting on the Sidelines

Larry Walters had a habit of spending his weekends in his backyard near LA International Airport. He'd sit in his favorite lawn chair drinking beer and staring at the houses around him. Not a real exciting life to say the least.

One day, boredom prompted Larry to buy some weather balloons and a tank of helium. He figured that by tying helium filled balloons to his lawn chair, he could float up a 100 feet or so for an aerial view of the neighborhood. Just in case he got too high, he'd take his BB gun to regulate his altitude by shooting out a couple of balloons.

After tying the balloons one by one to his secured lawn chair, he gathered up a six-pack, a couple of peanut butter and jelly sandwiches, his BB gun and took a seat. He gave his neighbors the high sign to cut the ropes securing the chair by yelling "Let's go!". Instead of 100 feet, he shot to 11,000 feet! The BB gun was useless since he was using both hands to hang on for dear life. He ended up directly in the flight path of LAX. The pilot of an approaching Continental DC10 reported that he had

just passed a man in a lawn chair and the control tower told him to report in immediately upon landing. They thought he was hallucinating or drunk.

Eventually, helicopters were sent to rescue him while all LAX flights were diverted elsewhere. When they finally got him down, he was surrounded by TV crews, the police, fire and rescue squads and plenty of curious people.

"Were you scared?" asked a TV reporter.

"No, not really" said Larry.

"Are you going to do it again?" asked another.

"No," said Larry.

"What in the world made you do it?"

Larry Walters thought about it for a moment and said, "Well, you can't just *sit* there."

In a way, Larry Walters was right. Life has something exciting in store for each of us. Don't sit out life watching from the sidelines. Be a participant. Loose your tethers and let'er rip! **APRA**

Save the Date!

APRA 2011 Symposium

The 2011 APRA Symposium will be held in Chicago May 20-21, 2011. Details to follow!