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NEWS AND VIEWS

for Homeowners Associations

ASSOCIATION FINANCIAL STATEMENTS: HOW TO REVIEW!

The status of the HOA finances is without doubt one of the most important aspects of common interest development living. Therefore, one of the most important tasks of the Board of Directors involves the regular review of the financial reports of the association. While, generally the Treasurer takes the lead role in this process, much of the "hands on" work of preparing the reports is delegated to a management company. Association boards are legally required to review financial reports and comply with certain required acts pertaining to financial reports or statements throughout the year. The law specifically requires that the Board:

- 1) Review both a current reconciliation of the association's operating and reserve accounts and, an income and expense statement on at least a quarterly basis.
- 2) Review, on at least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget.
- 3) Review the latest account statements prepared by the

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FIVE KEYS TO SUCCESSFUL BOARD SERVICE!

By Dave Brock, PCAM

HOA Board service is generally perceived to be **difficult, challenging and undesirable**. The following five points may help in providing some perspective on your role.

1. First, **understand your role**. Board members must wear two hats that can be in conflict with each other: the "board member" hat and the "owner" hat. It is important to know when each hat should be worn. Some board members think that they are board members 24-7. In reality, board members are only board members when conducting association business, typically at a meeting of the board.

2. **Don't get caught up in drama**. This is a business. It's too easy to get caught up in the personal stories of our neighbors, especially when they are questionable, even scandalous. Meetings need to be kept on track by the President and not veer away from association business. Also, meetings need to be kept to an hour unless there are extreme circumstances.

3. **Always be objective**. Don't believe anything until you have heard all sides. This is one of the first lessons property managers learn. Every story seems plausible until you hear the other side. Separate your role of being a neighbor and a board member. This is tough, but necessary.

Business is business.

4. **Don't operate on the CHEAP!** We all like a deal, and we hate paying more than we think we should. This

philosophy may work for you personally in buying for yourself or your family, but as a board member with FIDUCIARY duty, this doesn't work. Obtaining "value" with the association funds is much more important, and cost should only be a part of the consideration. Use contractors with a history of great service. You can avoid many problems by using licensed contractors with a proven track record. Condo properties are more complicated than single family homes, and not all vendors are qualified and licensed to work on condo associations, despite what you are told.

5. **Delegate and empower**. You are not paid enough to do all the things you may think a board member should do. Remember you are a VOLUNTEER, not an unpaid servant. This is also your home, too. Unless you want to burn out, the best solution is to find trustworthy and experienced vendors to assist you. Learn to trust and respect your vendors who have worked hard to earn their reputation



THE 10 BIGGEST MISTAKES IN RE-ROOFING!

By Carl Brown,
AWS Consultants, Inc.

Roofing replacement and other large waterproofing projects are generally the most costly projects that association board's face. Such projects are done only occasionally at an association. Because of the importance and cost of such work boards need to avoid as many complications as possible. This article covers the ten biggest mistakes a board can make in addressing such projects.

#1. Soliciting Bids Without Specifications

This process results in bids that cannot be compared, causing confusion and poor decision making. A specification can be as small as one page for a small project, however it must be complete and detailed for large projects (prepared by an architect or roofing consultant). The job specifications should be prepared only after the final product selection is made. Product manufacturers' specifications are generic and cannot contain all the special details that every project has. The details are critical for roofing projects.

#2. Signing a Contract Prepared By a Contractor Without Consulting the Association's Legal Counsel

This mistake is made by many associations attempting to save money. All major contracts should have, at minimum, a thorough review by counsel. Even better is to have the association attorney

write the contract. Roofing can be more complex than other types of work, especially related to warranties. A roofing contract is usually the largest one an HOA will ever have to sign.

#3. Asking the Manager to be the Project Manager For a Major Construction Project

Community managers are well trained in the duties of association management, especially those who have achieved their CCAM or PCAM. However, there is no formal training for them in management of construction projects. It takes years of training and experience to be a competent construction manager. Many of the largest management firms have a policy against their managers' performing project management for construction due to high liability exposure for the firm.

#4. Giving Large Advance Deposits for Materials to Contractors

Many associations are led to believe they are obligated to give contractors material deposits before starting the project. This is a mistake that can place the CID's funds in jeopardy. All successful contractors have credit accounts with their suppliers, usually for 30 days or more. If a bidder cannot fund their payroll until the first payment, the association should reconsider doing business with that company.

#5. Making Progress Payments Based on Percentage of Completion Instead of Measurable Completed Work

Measuring the amount of progress in percentage is difficult for both parties, especially for the association and its manager. A good rule is to pay only for pre-agreed benchmarks of construction completed and materials verified onsite.

#6. Failure to Start Planning 3 - 5 Years in Advance of Need

This is a common mistake, and there are many reasons this can happen. Five years is not too early to start planning a major roof project. Better planning can help to limit or eliminate emergency assessments, disgruntled members and excess cost, not to mention delay causing high emergency repair costs.

#7. Accepting the Lowest Bid Without Evaluating All Bids Including Interviews with Bidders

Associations try to save themselves personal time by simply selecting the low bid, assuming all contractors are the same and bids are the same, which is not true. The lowest bid may have critical exclusions that could result in the highest final cost.

#8. Believing that City Inspectors Will Validate the Installation

The typical city inspection is limited to a structural wood inspection and a final (completed) inspection. Seldom do the city inspectors make sufficient job-in-progress visits to verify the work is done per code or manufacturer's specs. In some cases, the

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financial institutions where the association has its operating and reserve accounts.

The requirements of the law can appear overwhelming to some, however there are effective and relatively simple ways that boards can address the requirements. While the law requires that statements be reviewed at a minimum quarterly, it is far better to review your financial status monthly.

The typical financial reports

“there are effective and relatively simple ways that boards can address the requirements”

include a balance sheet, general ledger, registers which include the income and expense registers, a delinquency report, and the budget comparison report. The balance sheet indicates the assets of the association. The general ledger is usually only referenced by the CPA when performing the annual review and/or tax return. The registers provide an itemized listing of each of the expense or income items, and are often expressed in date order. The delinquency report provides the status of each owners balance.

The budget comparison report is an essential report for the board to review in order to comply with the legal requirements. While this

report may appear daunting, it offers an excellent snapshot and can be easily understood within about five minutes.

The key information that board members should be concerned with are as follows:

- 1) Income: has all of the budgeted income been received?
- 2) Expenses: Is there any budget item that is overspent for the year so far?

The answers will determine the next questions. You will now need to know more specifics, such as **why** the actual collected income is less than what was budgeted. The delinquency report, also referred to as the “aging summary” will help in this regard. The board must address what is being done about any delinquencies over 45 days. Also, what does the income budget shortfall mean in relationship to your future cash flow if the delinquency payment issue does not get resolved quickly?

In terms of reviewing the expense side, the questions to ask are: which budget items are overspent and why? Is this an expense that occurs once a year and it already occurred this year? If so, perhaps you will be fine, as your budget allowance will catch up with the expense. If it is a monthly expense, such as utilities or a contracted service that is already overspent, then you should have cause for concern. Perhaps the reason for the over expenditure is related to an item that should be a justifiable reserve expense. In

this case, the operating account should be reimbursed by the reserve account. This is why reviewing your finances monthly,

“reviewing your finances monthly, and not quarterly, makes good sense”

and not quarterly, makes good sense so that you can discover future problems sooner.

The typical budget comparison report contains nine columns. However, there are only two or three columns that will provide an immediate awareness of the items that are overspent. The important columns pertain to the variance of what was budgeted to this point in the year compared to what was received or spent. The variance can be expressed in terms of a percentage or a dollar variance.

There will also likely be budget items where you are underspent, and this may be an area where an expense will still occur during the year. Hopefully at the end of the year there will be some positive line items that will help to offset the negative items.

Budgets are never perfect, since they are just a forecast (or good guess) about what your expenses may be. Unless you can perfectly predict the future, the budget will never be 100% accurate. The association budget, itself, is a legal requirement, and should represent the best thinking available at the time it is created. The bottom line is that the role of the board is to be aware of how your finances are performing throughout the year. It doesn't have to be complicated.

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inspectors may not actually go up on the roof.

#9. Making the Final Payment Without Obtaining the Closeout Documents (Permit, Warranty, Lien Releases)

The closeout documents should be demanded and a final payment withheld until they are in the manager's or Board's hands and verified correct for the project. There are two kinds of warranties: workmanship and product, and they are different documents. Nearly all local city or county building departments provide a signed-off permit card when they are notified the roof is done.

#10. Assuming All Roofs Are Equal and All Contractors Are Equal

The fact is all roofs are custom fabricated onsite to some degree or other. Most roofs are assembled one nail at a time by a real person

with tools. Installers have their good and bad days like all humans. Roofs of the same brand and type may be installed quite differently by contractors. Metal flashings can vary widely from contractor to contractor and they are critical for the waterproofing. Reusing metal components is sometimes suggested as a way to reduce the roof cost, but it is a poor idea. Actually, these components are some of the lowest-cost parts of the roofing system.

The Bottom Line

- Get a current roof survey by an independent roof professional to start the process.
- Retain professional help (roof consultant or architect) for guidance with product selection.
- Obtain complete custom specifications for your project, not generic specs.
- Obtain bids from pre-qualified contractors who have experience

with the product you have selected.

- Obtain a roofing contract from your attorney or the roofing professional.
- Arrange for an independent service to monitor the contractor and approve the work.

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