



2017 FirstService Residential Conference & Exposition

November 10, 2017
Talking Stick Resort and Casino

For more information and to learn how to register, go to page 5!

9 Steps to Make Your HOA Dollars Count This Budget Season

Another budget season is here once again, and that means that the boards of homeowners associations are busy planning, and analyzing. We know that developing your HOA's annual budget is not an easy task. However, with the guidance offered in the following nine steps, you'll be able to get through the process with more confidence.

1. Create an ad hoc planning task force.

Your planning task force will act as the liaison between your board and community management company team as you begin planning. It's best if your task force includes the board president and treasurer, along with your community manager and the heads of your budget and finance committees.

2. Hold a session dedicated to strategic planning.

Run by the planning task force, a strategic planning session helps ensure that board members are on the same page about the association's future. Use this time to set your priorities for the upcoming year and assess your

commitment to each item. Have your management team in attendance and, if possible, your CPA, attorney and insurance agent.

3. Determine your short- and long-term objectives.

How your HOA spends money over the next year needs to be based on your long-range vision for the community. What are your goals for the next 3 to 5 years? Which aspects of your community do you want to preserve and which do you want to change? Answering these questions is necessary before developing your budget. It's a good idea to survey homeowners or to have a committee collect data on what homeowners want.

4. Update your reserve study.

When is the last time your HOA had a reserve study done? If it's been three years or more, now is a good time to get a new one. Include preventive maintenance programs and scheduled replacement costs in your HOA's 3- to 5-year plan. Anticipating these costs now will prevent your board from having to add a special assessment later.



A large, dense collage of numerous small, square photographs of people, mostly in professional or semi-formal attire, serves as the background for the entire page. The collage is composed of many individual portraits and some small group photos, creating a mosaic effect. The colors are predominantly blue and grey, with some warmer tones from the original photos visible through the blue overlay.

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MESSAGE FROM JOHN KEMPER

President, Arizona

Another Arizona summer is behind us and fall is officially here! I join my fellow Arizonians in welcoming the new season, new opportunities, and of course, the cooler weather. For many of us, this can be a busy time of year. Summer vacations come to an end and kids go back to school, traffic returns to normal patterns, and individuals and businesses alike begin to plan for the New Year.

For board members of homeowners' associations, fall is budget season. During this demanding and often challenging time, it's important to have a dependable community management partner that you can count on, now and in the future. That is why at FirstService Residential, your association's continued financial stability is one of our top priorities.

Our experienced, CPA-managed financial and accounting professionals offer tailored services for HOA's year-round financial activities as well as annual budget preparation and processing during this critical time of year. Our proven approach streamlines the budgeting process, and ensures piece of mind for board members once a budget is in place.

This edition of the Review includes several budget best practice articles. We believe providing guidance and education is an important responsibility. As always, our community management team of experts are at your service.

Speaking of education and best practices, there is no better time to attend the fifth annual FirstService Residential Arizona Conference & Exposition on November 10th. This one-of-a-kind event brings together Arizona's most trusted vendors of HOA products and services, informative educational sessions covering some of today's most pressing topics, and complimentary legal advice from top local attorneys – all under one roof. The Expo is free to attend and includes courtesy valet parking, a buffet lunch and cocktail hour. Go to www.azhoaexpo17.com to RSVP today. For more information turn to page 5.

I encourage you to take advantage of the numerous opportunities and resources at the Expo. If you cannot attend, I invite you to visit our website where you can find helpful articles and information about best practices and solutions for HOAs all year long. We also host free educational sessions throughout the year that cover a variety of topics aimed to help board and committee members be most successful. Visit www.fsresidential.com/arizona or contact Paul Schwartz at Paul.Schwartz@fsresidential.com or (480) 551-4562 to learn more.

I hope to see you at the Expo and extend my best wishes to you this Fall and this budget season!

Sincerely,

John Kemper, President
FirstService Residential Arizona

9 Steps to Make Your HOA Dollars Count This Budget Season

Continued from page 1

5. Analyze past financials.

Your past financial statements and balance sheets can play a big part in helping you plan for the future. However, it is best to compare what you budgeted in past years to actual costs in order to prevent future miscalculations or costly oversights. Determine your HOA's financial stability by looking at:

- The percentage of homeowner delinquencies (should be no more than 3 to 5 percent)
- The excess amount you have in your operating fund (should be about 10 to 20 percent of your annual assessments)
- Cash reserves (should be adequate to handle planned expenditures)

Ideally, past boards will have left behind detailed rationales for expenditures. Whether they have or not, it's important that your board document its rationale for major expenditures going forward.

6. Review trends, and anticipate changes.

Review some of the key areas of your operations, what they have cost your HOA in the past and how you have benefited. Ask your service contract providers and utility companies about expected cost changes. Investigate possible ways you might be able to reduce your costs, for example by installing more efficient appliances or technology. Include planned improvements or upgrades in your calculations. And don't forget to include anticipated changes to your payroll over the next 3 to 5 years, such as additional staff or changes in the cost of healthcare, which can significantly affect your budget.

7. Estimate your revenue.

Consider all your sources of revenue, including investments. Depending on the needs of your HOA, you may want to apply that income to your operations or to your reserve fund. In any case, make sure you are accounting for all expected revenue in your 3- to 5-year plan.

8. Look at tax implications.

Look over your planned projects and any reserve expenditures to determine if they will affect your taxes. Pay special attention to any items that could generate revenue. Discuss these tax implications with your CPA, and plan for them now.

9. Create your budget.

Once you have pulled together all the necessary information, analyze your data to come up with an estimate of your future needs. Get actual costs from your existing vendors and contractors so that your numbers will be more accurate. Include the following categories in your long-term budget:

- Administrative expenses (consulting, management, audits, computer services, bank charges, etc.)
- Service or contract costs (landscaping, maintenance, recreation, etc.)
- Insurance costs
- Utility costs
- Capital reserves
- Revenues from sources like assessments and investment interest

Remember, you are not just planning for the upcoming year. Your budget lays the groundwork for the future of your community. Taking an organized approach simplifies the job of creating your annual budget and helps you put your community on the right path for years to come.



EXCLUSIVE BOARD MEMBER EVENT

2017 FirstService Residential Arizona CONFERENCE & EXPOSITION

At FirstService Residential, we are passionate about being the best at what we do. Providing high quality, HOA board member centric events is just one of the ways we set the standard for service and professionalism in our industry.

Our Conference & Exposition is a one-of-a-kind event tailored to the needs of homeowners associations across Arizona.

Here's what you can expect:

- ▶ +100 vendor booths from leading HOA service providers
- ▶ Free legal clinics with top local attorneys
- ▶ Informative educational seminars covering trending topics
- ▶ Complimentary buffet lunch and cocktail hour
- ▶ Courtesy valet parking for all attendees
- ▶ Vendor raffle prizes and a chance to win a \$1,000 resort credit to Talking Stick Resort & Casino

Don't miss the educational seminars!

- ▶ **Board Member Risk and Liability** presented by Javier Delgado of Carpenter, Hazlewood, Delgado & Bolden, LLP
- ▶ **On-Street Parking** presented by Charles Sellers of Maxwell and Morgan, P.C.

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www.azhoaexpo17.com

FirstService Residential Special Group Rate for lodging:
Please call 1-866-877-9897 and refer to "FirstService Residential" or use the booking code "14360" to get the special booking rate.



Friday, November 10, 2017

Talking Stick Resort & Casino
9800 Talking Stick Way
Scottsdale, AZ 85256

SCHEDULE

11:00 am
Exhibit doors open

12:00 – 2:00 pm
Lunch buffet

4:00 pm
Exhibit doors close

4:00 – 6:00 pm
Cocktail hour

How to Choose the Right Community Banking Program

Board members have a fiduciary duty to protect the financial interests of both their homeowners association and fellow residents – and that includes ensuring that their HOA’s operating and reserve funds are properly managed, invested and protected.

It stands to reason that sound financial stewardship and smart decisions are critical to ensuring the association’s ongoing health and stability – but as volunteers, board members may not have the financial knowledge or experience to choose the right banking program to meet their community’s needs.

It is explicitly stated in each community’s bylaws that the board treasurer is tasked with investing the association’s funds – that means treasurers must understand the right vehicles invest in, how to increase yield while maintaining liquidity, what their optimal allocation should be and more. There are no one-size-fits-all answers – they depend on each community’s age and location, its by-laws, the results of recent reserve studies and many other factors.

Consequently, rather than managing their banking programs themselves, many community associations opt to partner with financial management companies – especially those with deep association experience and strong lender relationships. A good financial management company will work closely with the treasurer and board to review the association’s investments and craft tailored solutions to help it achieve its goals.

Even if your treasurer and board are financially savvy, it’s always a good idea to consult with a financial professional when choosing the right banking programs for your association – that will help you select vehicles that are safe, effective and compliant with your community’s bylaws.

They can also point you towards quality financial institutions. “It’s beneficial for associations to work with banks that are HOA friendly or specialize in the HOA industry – that will help ease both the account opening process and transaction processing,” says Karla Chung, Vice President, Western Region, for FirstService Financial. “A good financial management company will have

Did you know?

As a FirstService Residential Arizona association client, you can utilize the services of FirstService Financial, Inc., our affiliated financial services company.

FirstService Financial offers a full selection of quality financial services exclusively to the affiliated firms of FirstService Residential.

<https://www.fsresidential.com/AZresults>

relationships with banks that are stable, understand your business, offer competitive rates and provide excellent customer service.”

What else should you look for when choosing the best banking program for your association?

Safety.

Keeping your association’s funds safe should always be the number one priority, so it’s critical to consider investing only in money market accounts and/or CDs that are insured by the FDIC or other third-party insurers. That also goes for the banks themselves – make sure they’re FDIC members. Not sure if they are? You can check with your financial management company or research it yourself using the “BankFind” feature on the FDIC website (www.FDIC.gov).

It’s also important to remember that the FDIC insurance limit for each depositor is a total of \$250,000 for all accounts at one bank – however, you can have other accounts totaling \$250,000 at multiple banks. Your staff accountant or financial management company should regularly monitor each account’s balances to ensure that incoming reserve contributions and other deposits don’t put you over the threshold. If you’re bumping up against it, they can help you consider other options.

Liquidity.

Remember the old Boy Scout motto to always be prepared? That also applies to your bank accounts. Be sure to maintain adequate liquidity – the equivalent of three months of operating expenses should always be accessible, in case your association needs it.

As for the rest of your funds, some financial management companies advise their clients to maintain a healthy balance between liquid money market accounts and fixed-rate CD accounts – that helps protect associations from the risk of rising interest rates.

“As interest rates increase, CD yields remain fixed, while money market account rates are likely to go up. Therefore, it is critical to have a balanced allocation between both types of investment vehicles to ensure you’re not leaving money on the table,” says Drew Ahrensdorf, Product Manager at FirstService Financial.

So how do you determine how much to allocate into various types of funds? Do what many board members do – have a financial management company review your reserve study. Here’s why. Reserve studies, which are required in many states, help boards forecast the expected timing and amount of anticipated repairs, replacement and other major common area expenditures. Reserve studies also provide a timeline of when funds will be needed, as well as a funding plan to ensure the association has the necessary funds available to cover costs when they occur.

“By reviewing your reserve study, a financial professional can determine the optimal amount of money and length of time, or term, to invest your reserve funds. That will make sure your association has the right balance between money market accounts and longer term CD investments

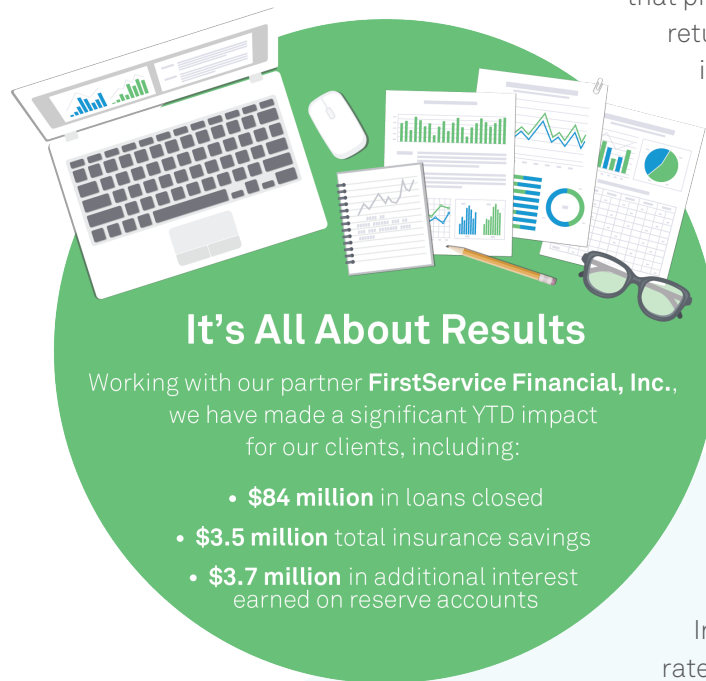
to both cover costs and produce investment income,” explains Ahrensdorf.

He adds that a new client had never before had a professional financial management company examine its reserve study. “By reviewing the timing of their future capital projects, we structured a customized CD reserve portfolio that helped the association go from \$10,000 per year of interest income to \$70,000, with similar returns expected for the next five to seven years – and may go even higher if interest rates rise,” he says. “We were able to unlock an earning potential they didn’t even know they had.”

Return.

Your association dollars should work for you, so it’s important to choose investment vehicles that provide the highest levels of return. Some boards research this information via bank websites or financial publications like the Wall Street Journal, while others look to their financial management companies to provide banking relationships that offer above-average deposit rates. If you’re not working with a management company, be sure to read the fine print and ask questions to make sure the rate your bank is offering is not a teaser rate. Instead, it needs to honor that rate for the long term – and review your portfolio at least quarterly to make sure the rates don’t change. That’s another area where a good financial management company can provide value – by leveraging the volume of its portfolio, it may be able to negotiate stable interest rates on your behalf. This is an area FirstService Residential and FirstService Financial continues to excel.

Board members are charged with ensuring that their operating and reserve funds are invested responsibly, and choosing the right bank and a vehicle that offers safety, liquidity and return is critical to your association’s short- and long-term stability.



FirstFeast Recipes

*Classic recipes from
our table to yours*



No-Bake Pumpkin Cheesecakes

Pumpkin cheesecake is a delicious fall staple. A good pumpkin cheesecake has a sweet, yet slightly earthy taste that pairs perfectly with autumn's sweater weather.

SERVINGS: 4-6

INGREDIENTS:

1 1/2 cup Heavy Whipping Cream
1 cup Powdered Sugar
1 teaspoon Vanilla Extract
6 oz Cream Cheese
1 cup Pumpkin Puree
1 1/2 teaspoon Ground Cinnamon
1/2 teaspoon Ground Nutmeg
1/4 teaspoon Ground Ginger
1/4 teaspoon Ground Cloves

DIRECTIONS:

In the bowl of a stand mixer, whisk the whipped cream on high speed until it begins to froth.

Add the powdered sugar and vanilla and continue beating until soft peaks form. Transfer the whipped cream to a bowl and set aside.

Using the same stand mixer bowl, add the cream cheese and beat on medium speed until smooth.

Add the pumpkin puree, cinnamon, nutmeg, ginger and cloves and mix until well combined.

Fold in 1/2 cup of the whipped cream and mix until completely smooth.

Using a piping bag fitted with a large tip, pipe the mousse into 4-6 small ramekins. Pipe a dollop of the reserved whipped cream on top of each ramekin and sprinkle with cinnamon.

Chill for at least an hour before serving.

The Consumer Price Index (CPI): How it Impacts HOA Assessments

Nobody likes to see prices go up for things they want or need, whether it's a plane ticket, a quart of milk or even a college degree. But as we all know, rising inflation often leads to rising costs – and that can impact the budget assessments set each year by homeowners associations or community associations.

As a board member of your community, you're charged with determining your association's annual assessment – and as part of your fiduciary responsibility to your association and its members, you must ensure any increases are appropriate and reasonable. As a result, many communities' governing documents require associations to tie assessment increases to the Consumer Price Index (CPI) – a solution that standardizes the process and helps ensure fairness, but often creates confusion for stakeholders.

A community management company with deep resources, such as FirstService Residential, will be able to leverage its budgeting and financial experience to provide guidance. But to get you started, we've compiled some information about the Consumer Price Index – what it is and what you need to consider before you get started.

1. What is the Consumer Price Index?

Some people mistakenly believe that the Consumer Price Index is a cost-of-living index, but it's not – and it's also not directly tied to the rate of inflation. So what is it? The CPI is actually several indices that measure the changes in price over time for a standard market basket of goods and services in over 200 categories – everything from food, to medical care to transportation and more. These are the average prices paid by two different types of urban consumers in various regions of the country.

CPI results are calculated monthly, semi-monthly and semi-annually by the U.S. Bureau of Labor Statistics (BLS), which gathers information from thousands of retailers and service providers in key markets. As a result, consumers can compare apples to apples – or in this case, the price of today's basket in a particular region, compared to what it cost one or more months and/or years ago.

2. Which index to use?

As noted, the BLS doesn't just publish one Consumer Price Index based on one group of consumers in one area – instead, it releases several indices measuring the spending of two groups, Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers (CPI-W) at various times of the year. CPI results for these groups are published monthly for four key regions of the country, semi-monthly for 11 metropolitan areas, and semi-annually for 13 additional markets. With so many CPI options, it's critical that your community's governing documents clearly specify which index must be used in order to ensure transparency and manage homeowner expectations.

3. What is your base period?

In CPI terms, the base period is the timeframe in which the BLS sets the average Consumer Price Index to 100 – that helps facilitate relative comparisons over time. Again, clarity is very important – make sure your community's governing documents clearly spell out the base period during which assessments will be calculated to avoid confusion and build consensus.

4. Plan for contingencies.

By using the CPI to determine assessments, your association will likely have adequate funds available to cover your community's basic maintenance and upkeep. But your allocation may not be enough to cover the costs of unforeseen repairs, projects, improvements or emergencies, so your association may need to collect a special assessment if these needs should arise.

While your community, like many others, may be using the Consumer Price Index to determine your annual assessment, it's important to confirm that your governing documents include specific details about the process to ensure accuracy and avoid confusion. Your association's legal counsel should review your governing documents, and if necessary, provide clarification or revisions to ensure a smooth process. A good association management company can also leverage its budget and financial experience to provide more information on this complex topic. In other words, having the right team in place will help your HOA navigate the CPI and steer you in the right direction for success.



Vendor Management Tips to Help HOAs Get Great Results

Community association board members know that keeping their community running smoothly, operating effectively and looking aesthetically pleasing is a team effort. And for most homeowners associations, that team consists of trusted vendors and service providers to help you get those jobs done – and get them done right. But part of that process includes managing the vendors you’ve hired – and if your HOA has hired multiple vendors to provide a variety of services, it can be hard to juggle multiple contracts, timelines, payment obligations, contacts and other important details at the same time. Here are some tips to manage your community’s vendors more effectively – and get the results you’re looking for.

Start by choosing the right vendors.

The best way to ensure great service and results is to choose the best vendor to meet your needs. Look for experienced vendors with a proven track record in providing the service you need, as well as positive

feedback from satisfied clients. If you need referrals, you can start by asking professionals, colleagues, or neighboring communities, or consult with a good association management company that has built strong relationships with trusted providers. Once you have your vendor lists, compare what they bring to the table, i.e. the type and scope of services they offer, how long it will take to deliver service, how much it will cost and how responsive they are to communication – and don’t forget to check references and vendor ratings. And let all of the candidates know the high premium you place on delivering service excellence and value to your community – and be sure they share the same commitment.

Have reasonable expectations.

Once you’ve chosen a vendor, it’s important to set reasonable expectations about how and when they can get the job done. Here’s a tip – by understanding a little bit about how each vendor’s business works and the

challenges it faces, and the details of their contract with the association, you can better manage your expectations about the value it can provide to your community. For example, take a landscape/tree maintenance company. After a monsoon storm downs trees and/or tree limbs in your community, it's not reasonable to expect that the company will be able to clean up every tree or tree branch by first thing in the morning. That being said, it is reasonable – with clearly defined contractual verbiage regarding emergency services – that your vendor will be able to clear away downed trees and tree limbs that are creating an immediate safety hazard. By understanding a company's demands, the obstacles it may face to deliver its services, and the company's contractual obligations, you'll have more reasonable expectations – and a better working relationship.

Communicate openly and often.

Good communication is key to building and maintaining a positive relationship with your vendors, and goes a long way to ensuring you'll receive the best service. Good communication includes clearly communicating your needs and expectations to vendors right from the start, and responding quickly to their questions and requests at every phase. For example, be upfront with your service provider if your construction project has a strict timeline or unusual challenges – and let them know if the times or details change along the way.

At FirstService Residential we take on this role, maintaining clear and ongoing communication with vendors to ensure no surprises – and consequently, the results you expect.

Pay Vendors on Time.

Service providers who do their jobs well and fulfill their commitments to your community deserve to be paid on time. It's also better for your HOA and community – after all, how can you expect great workmanship and service from a vendor who isn't getting paid? But more importantly, paying vendors on time is not only outlined in your contract, but also shows your respect and appreciation for what they do for your community.

With that said, sometimes when you have payments going out and invoices coming in from multiple vendors, staying on top of the process and ensuring all providers get paid on time can be a juggling act at best – and impossible at worst.

Tap into professional experience – and resources.

Your vendor management process does not have to feel overwhelming. FirstService Residential has invested in the tools and resources to effectively manage clients' multiple invoices and payments, track vendor performance, manage contacts, facilitate communication, and more. By effectively handling the myriad of details and responsibilities around vendor management, will not only have peace of mind, but more importantly, will free you up to focus on your responsibilities to your community association and residents.

Hiring and managing quality vendors goes a long way. Keep these tips in mind to help you achieve your responsibilities to your association – and deliver on your value proposition and service promise to your community.



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9000 East Pima Center Parkway
Suite 300
Scottsdale, AZ 85258

www.fsresidential.com

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Connecting with FirstService Residential

Corporate Office

9000 E. Pima Center Pkwy.
Suite 300
Scottsdale, AZ 85258
Phone (480) 551-4300
Fax (480) 551-6000

Peoria Office

16150 N. Arrowhead Fountain
Center Drive, Suite 200
Peoria, Arizona 85382
Phone: (480) 551-4300
Fax: (480) 551-6000

Tucson Office

8375 N. Oracle Rd., Suite 150
Tucson, Arizona 85704
Phone: (520) 219-4520
Fax: (520) 219-4711

Office Hours

Monday - Friday
8:00 a.m. - 5:00 p.m.
Excluding Holidays

Executive Team

John Kemper
President

Rich Orduno
Vice President

Kirk J. Kowieski
Vice President

Jennifer Clifford
Vice President

Laurie Preston
*Director
Human Resources*



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