

Getting the Most from Your Depreciation Report or Reserve Fund Study: *What to do with your report after you receive it.*

The depreciation report, or reserve fund study, contains a great deal of valuable information but an incomplete use of the information gathered for the report can limit its potential as an effective tool. Some people mistakenly believe that creating a depreciation report is too costly and time consuming to undertake but the fact is, if properly done and effectively used, it can save time, money and headache. The report provides a solid foundation for future planning by establishing an inventory of assets, setting a schedule for timing short and long term projects, and it provides estimates for current and future project costs. Property owners and managers can use their depreciation report as the starting point for creating a capital plan, a maintenance plan, a short-term renewal plan, an annual budget, and as a framework of communication to help owners understand project priorities and costs.

CREATE A 10-YEAR CAPITAL PLAN

As part of regular planning activities, a capital plan should be developed to provide a summary of priorities for renewals. The plan will also give council an easy way to communicate what should take precedence and show property owners that resources are being properly managed. It will also create the discipline to look at each asset on a regular basis. From the depreciation report, a list of estimated renewal priorities over the next 10 years can be obtained and separately identified. Regular inspections

Use the depreciation report to:

- 1 CREATE A 10-YEAR CAPITAL PLAN
- 2 CREATE AN ANNUAL MAINTENANCE CHECKLIST
- 3 CREATE A SHORT-TERM RENEWAL PLAN
- 4 CREATE AN ANNUAL CONTINGENCY RESERVE FUND BUDGET

All of the above activities result in ways to communicate with owners

should be performed for the renewals necessary within that time frame, especially for those scheduled within the first 5 years. The results of these inspections will inform an updated determination of the asset condition and timing of the renewal projects. After every review, the capital plan can be revised outlining the current priorities. This is not a static document; it will need regular updating with new information, findings from inspections, maintenance activities, and renewal activities.

CREATE AN ANNUAL MAINTENANCE CHECKLIST

Routine maintenance is key to good performance of assets. The depreciation report is a great place to start the creation of maintenance plans by providing a comprehensive inventory of common assets. From the list, maintenance activities can be prioritized according to factors such as current condition, rate of deterioration, and whether the update is cosmetic or structural. If a maintenance plan already exists, the depreciation report might highlight a component that was missed, and that asset can be added to the current plan.

Once created, the maintenance plan can be used as a checklist to guide and record annual maintenance activities and results. Through these activities, each component will be inspected, tasks will be undertaken, and the checklist can be used to record pertinent details.

Part of renewal planning is determining whether or not short-term maintenance can be done to help defer replacement projects. It should be noted however, that project deferrals are not always cost effective. Planning should always balance the cost savings of short-term deferrals against the risk of causing significant, and costly, long-term damage by delaying projects. The process of following a maintenance plan creates a historical record that can then be used to help pinpoint potential problem areas, or conversely, help identify components that are performing well. An easy to follow sample of a maintenance checklist can be found on the following page.

Once completed, this checklist and findings can be provided as part of an AGM package to inform the rest of the owners with an understandable rationale for upcoming activities and budget priorities.



EXAMPLE OF MAINTENANCE CHECKLIST ITEMS IS OUTLINED BELOW:

Maintenance Checklist for Assets	Date Completed	Observation	Action Taken
Review the building foundations and inspect for cracks, leaks, broken items, staining, efflorescence			
Inspect for water ingress or black staining within common areas			
Survey owners about any water or black staining inside their suites			
Inspect sealants and painting, looking for chipping, fading, cracking or missing sections			
Inspect for and remove vegetation from the building foundations and cladding			
Inspect downspouts, gutters and flashing to ensure water is being directed away from the building and that there are no sagging, clogs or build-up of debris			
Clean any organic matter build up off the exterior enclosure			
Review for corrosion of metal fasteners, joints, downspouts, gutters and flashing			
Clean any accumulation of dirt at the window or door sills			
Clean glass with soap and water			
Inspect for any worn out weather stripping			
Remind owners to maintain good air circulation and ventilation in each home (use exhaust fans, open windows, humidifiers)			
<p>More information on maintenance can be found on Normac's web-site: www.normac.ca/blog and the Home Protection office www.hpo.bc.ca/homeowners.</p>			

CREATE A SHORT-TERM RENEWAL PLAN

Once the near-term renewal projects have been determined, budget priorities can be established for the next 3 years. Part of that process will be to determine the scope, time-frame and recommended approach, and to obtain more detailed cost estimates.

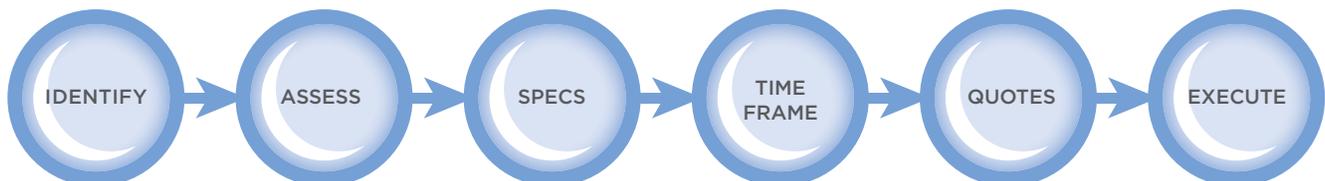
It may be useful at this point to consider more invasive condition assessments or inspections, such as core sampling or moisture probing, for the near-term renewal projects. Once assessments are complete, it is much easier for the corporation to summarize the specifications and consider the timing of the projects. For example, it may be more advantageous to plan for a summer renewal compared to a winter renewal for some projects.

After the specifications and timing is decided upon, gathering quotes for detailed costs

should occur. The depreciation report will provide you with initial cost estimates but as the project approaches, quotes from trades people or contractors are essential for firm cost commitments. Here is a useful Canadian Bar Association link that discusses some considerations for hiring a contractor

http://www.cba.org/bc/public_media/housing/409.aspx.

Having a comprehensive plan in place can help to avoid surprises, and will ensure that the stakeholders have more control of the project. By forecasting a few years for renewal projects and by gathering more information, the optimal outcome can be achieved. A summary of the information gathered through this process is good to share with owners.



CREATE AN ANNUAL CONTINGENCY RESERVE FUND BUDGET

From the short-term renewal plan, a contingency reserve fund budget outlining funding and capital spending needs can be prepared for and approved at the annual meeting. Just like budgeting for operating expenses, the contingency reserve fund budget process should become an annual event. Once priorities are determined and costs fine-tuned, expenditures will be more easily determined. Expenditures will then need to be assessed in light of the current reserve fund balance and current funding levels.

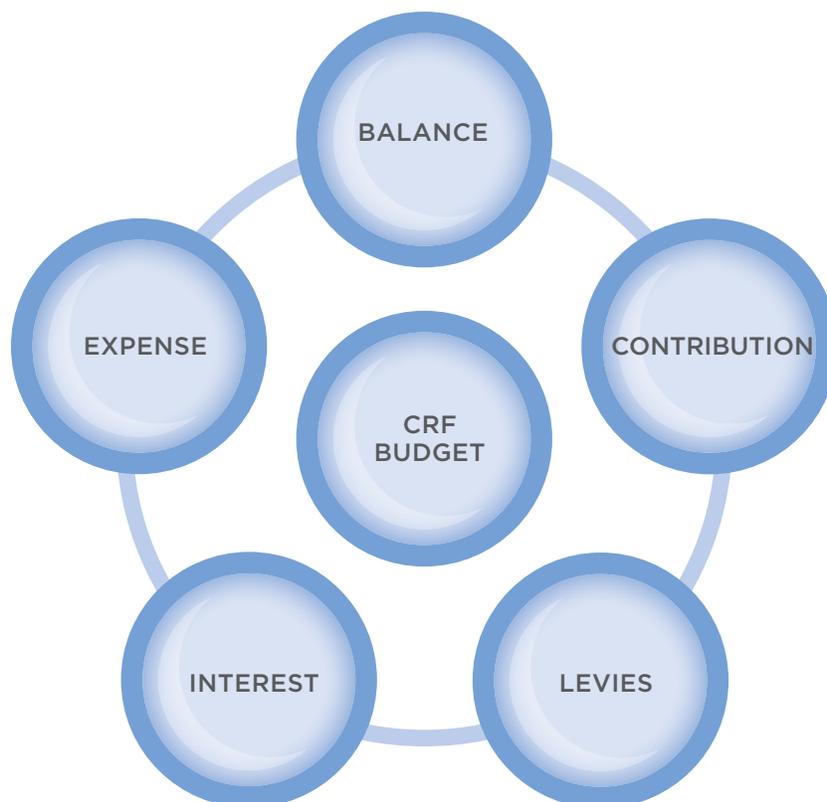
With good information, owners can understand when and why major expenditures will take place and how much they will cost. In anticipation of those expenditures they can start saving the correct amount sooner. For funding, it is typically easier to increase fees on a monthly basis over a few years rather than shocking owners with unexpected special levies.

CREATE AN ANNUAL CONTINGENCY RESERVE FUND BUDGET CONT'D

The depreciation report and any planning performed will provide the corporation with the necessary information to build the budget. The budget will have an opening balance, annual reserve contributions, changes to reserve contributions, if any, special levies proposed, expected interest income, and the expenditures planned for the upcoming fiscal year.

To offset some of the burden of future expenditures, investment returns from the

contingency reserve fund should also be maximized. Knowing when renewal projects will occur, and at what cost, are key to maximizing returns. Good information allows the owners to invest in securities with various maturity dates, which can lead to significantly higher returns. Active investment planning will help reduce the owners' overall financial burden. For further information on investment strategies, visit our blog at <http://normac.ca/blog>.



SUMMARY

Following the steps outlined on the previous page will allow property managers to get the most of the depreciation report by making it the foundation of active capital planning. The information contained in the report, along with the activities that follow, provide for smarter

decision-making and better preparation for the future. The diagram below summarizes the many ways depreciation reports can be used and if used effectively, it is a powerful tool for planning and for communicating asset management needs to owners.



Normac is Western Canada's premier provider of Insurance Appraisals, Depreciation Reports/ Reserve Fund Studies and Building Science Services.

We deliver peace of mind to property owners and managers with our industry-leading reports and unrivalled service. Our team of specialists is standing by. Contact us at www.normac.ca, 604-221-8258 or toll free at 1-888-887-0002.