

PRINCIPAL PRESS

Principal Management Group Of Houston

First Quarter

An Associa® Member Company

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New Construction Program

Many of you may be familiar with a service that PMG is providing called New Construction Review, but not totally sure of how it works. New construction review consists of three steps. The first step is review of the construction plans. Second, we review the individual submittals for each lot in a development. The last step is a final inspection.

When a builder has new construction plans they are looking to build in a particular community, they submit those plans to PMG. We take the plans and make sure they are in compliance with the specific builder guidelines for that community. Items we look for are the square footage requirements, will the elevation be in harmony with the look of that community, will the elevation call for the required number of materials or does it call for too many materials on one house. Many developers discourage certain types of garages or additions to the homes such as skylights. We check for all of these items and many more before we take the plans to the developer. Often we deny the construction plans before they ever go to the developer because they do not meet the guidelines. Once we deem the construction in compliance with the standards of the community, we take them to the developer for final approval.

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WELCOME TO OUR NEW CLIENTS:

*Lake Olympia in
Missouri City*

*Deerbrook Estates in
Humble*

*Brazos @ Rivers Edge in
Richmond*

*Highland Bayou Estates in
Hitchcock*

*Towns of Willowbrook in
Houston*

*Crossroads in
Houston*

Associa's Customer Service Training

Principal Management Group is delighted to announce our newest education program designed for all our employees – Consummate Customer Service. We realize that, in addition to our expertise, our knowledge and our diligent efforts to manage our communities, we must understand that we are foremost a service company. We want to ensure that each of our employees learns that message by attending our 2-day program. Our Consummate Customer Service course focuses on every aspect of our management services, from start-up with a new community customer, to accounting, from learning telephone and listening skills, to interpreting body language and improving our written communications.



Each of our employees must not only pass a 40-question exam, but his or her supervisor must also confirm that the employee has implemented the course objectives. We'll award each graduating employee an "I C.A.R.E." (Customer Appreciation, Responsiveness and Empathy) lapel pin, so be sure to look for the pin the next time you see one of our employees. It will take several months for each employee to complete the course, but we are committed to ensuring that our board members, homeowners and renters receive the absolute optimum service whenever they call or visit any one of our employees. We already have an excellent reputation in Houston for our professional management services; now we've raised the bar to a new level with our Consummate Customer Service program.

Featured Client

Avalon at Seven Meadows

Taylor Woodrow, one of the newest names in Houston's home-building and community-development industry has actually been in business for more than 80 years and 25 in the Houston area. Taylor Woodrow is a wholly owned subsidiary of Taylor Woodrow, PLC, a U.K.-based housing and development company founded in 1921, with 2003 revenues in excess of \$1 billion. Taylor Woodrow has been building award winning homes, high-rise condominiums and lifestyle communities in North America for more than 65 years. Headquartered in Bradenton, Fla., Taylor Woodrow currently has more than 70 active developments throughout Florida, California, Arizona, Texas and Ontario, Canada.

"Offering a total lifestyle – not just a home – is what Taylor Woodrow does best, whether we are developing and building the entire community ourselves or partnering with another leading developer," says Tim Towell, president of Taylor Woodrow's Texas division. In Houston, Taylor Woodrow is the developer of Avalon at Seven Meadows, a primarily gated community where 96 percent of all homesites offer lake or golf-course views. Located in West Houston, Avalon at Seven Meadows is a showcase of Taylor Woodrow's commitment to quality and attention to detail. Avalon's details include fountains, decorative gates and lush tropical-style landscaping, along with 28 acres of lakes and frontage along the Greg Norman-designed Meadowbrook Farms Golf Club.

Taylor Woodrow is the lead builder in Avalon at Seven Meadows, offering three product lines, including two series of semi-custom homes and luxury low-maintenance golf villas. Prices range from the \$240s to \$500s. Avalon at Seven Meadows also offers homes by Peterson Homebuilders, Sterling Classics and Westport from the \$600s to more than \$1 million.

Other Taylor Woodrow developments are Avalon and Sugar Lakes in Sugar Land and Steiner Ranch, a 4,600-acre master-planned community in Austin. Taylor Woodrow is also a leading builder of upscale semi-custom homes in quality communities throughout the Houston area. The semi-custom building philosophy allows home buyers to customize floor plans and features to suit their needs, and the builder's design center offers hundreds of choices.

Taylor Woodrow has created several design collections especially for the Houston market, and these new floor plans are already winning major industry awards. Taylor Woodrow's Milano model in Avalon at Seven Meadows won product and interior design awards from the Texas Association of Builders in 2004, and the Sarasota model in Eagle Springs won an interior design award from the Greater Houston Builders Association. For more information, go to www.TaylorWoodrowHomes.com



Our employee's have been busy

We'd also like to welcome into the PMG Houston and Associa Family the following new employees:

- Karla Estrada – Accounting
- Helga Garay – Accounting

Ron Lake – Houston Manager/Director of Management

Houston Prewitt – Assistant Manager/Accounting

Mary Price – Woodlands Assistant Manager

Tricia Reece – Houston Assistant Manager

Congratulations! The stork has arrived and brought a new bundle of joy to Misty Darilek, from our Woodland office.

Baby Girl Emiliee

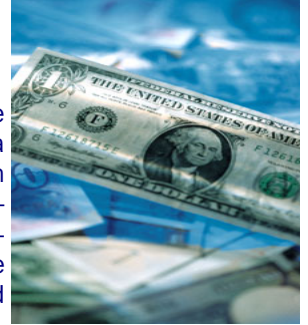



Associa®
Community Association Web Sites

We make available to each of our associations a personalized web site that allows your association's residents access to a wealth of online services, including interactive community calendars, board and committee discussion groups, access to association documents and much, much more.

Reserve Studies

Preparing the annual budget and overseeing a community association's finances are perhaps the most important responsibilities of the association's board members. It is a primary business duty of a community association to maintain and preserve market values of both the residential and common area property. To do so properly, directors must develop funding plans for future repair or replacement of major common-area components, such as swimming pools, decks, asphalt surfaces, concrete areas, fencing, monument signs, and much more. Using annual operating budgets and reserve budgets assists in reflecting the plans and goals of the association as well as in setting the level and quality of service for the community association's activities in the months and years ahead.



Community associations have several funding options, including periodic assessments over the life of the assets, special assessments at the time of the actual replacement, borrowing funds when needed, a combination of the above, or the most common practice of setting aside funds in a special category commonly called reserve funds, replacement reserves, replacement funds, or simply, reserves.

Owners are sometimes reluctant to contribute to reserve funds because they feel that these “surplus” funds are an added cost of living. These same owners often forget that the overall appearance of their community translates directly into its property value, which has been documented as the leading factor in members' satisfaction with their community. Additionally, one must remember that lenders look for signs of financial health when reviewing mortgage applications. Communities with inadequate reserve funds may find themselves at risk for mortgage denials. Equipment and major components must be replaced, whether the expense is planned or not. Today's boards of directors must educate their membership in understanding why property owners should invest in reserves now, even though the money seemingly might only benefit future owners.

Reasons to be shared with the members for creating and adequately maintaining a reserve fund should be: (1) Fulfillment of legal, fiduciary and professional requirements (2) Requirements of the secondary mortgage market as dictated by Fannie Mae, FHA, VA and Freddie Mac (3) Deterioration/Depreciation of common assets from which current owners have benefited (4) It minimizes the need for unforeseen special assessments, especially for those on fixed incomes, (5) A replacement fund or reserve enhances resale values, and (6) Accounting standards require proper attention be paid to the reserve/replacement fund, given the depreciable nature of certain assets over time.

Before establishing a reserve/replacement fund, the community association should discuss its financial needs with its professional manager, CPA, engineer, or other trusted advisor. Community association reserve funds account for nearly \$5 billion U.S. dollars today. With so many reserve advisors available, association leaders often encounter difficulties in selecting the best one for their association. Due to the technical details involved, the community association should hire a qualified, experienced person to prepare its reserve study and any of the above professionals can typically point the association in the right direction. Additionally, a board may begin by talking to other association boards, learning about industry trends, and checking references.

Typical Reserve Studies are comprised of two parts, the Physical Analysis and the Financial Analysis.

Physical Analysis - During the physical analysis, a reserve specialist typically performs a site inspection evaluating information about the physical status of the association and the repair/replacement cost of the major common area components. The reserve specialist conducts an inventory of the association's assets, renders a condition assessment, and completes a life expectancy evaluation. The component inventory should be relatively stable from year to year.

Financial Analysis - The financial analysis is made up of a finding of the client's current reserve fund status (measured in cash or as a percent funded) and a recommendation for an appropriate reserve contribution rate.

Of course, standard operational expenses continue to occur annually and can be effectively budgeted each year. Such expenses should include all minor expenses which would not adversely affect an operating budget from one year to the next. Examples of operational expenses are:

Continue on Page 4

Reserve Studies continue from Page 3

- Utilities
- Services: landscaping, street sweeping
- Administrative: management fees, copies & postage
- Repair Expenses: equipment repairs, minor concrete repairs, fence & gutter repairs

There are three categories that describe the various types of reserve studies, from an exhaustive to minimal in reference to the level of service.

First, a Full Reserve Study is one in which the following study tasks are preformed: (1) Component inventory (2) Condition assessment based on visual observations (3) Life and valuation estimates (4) Fund status (5) Funding plan

Second, an Update, with site visit/on-site review where all of the above noted study tasks are performed as an update to the previous study.

Finally, an Update with no site visit and/or observations in which only the following tasks are performed: 1) Life and valuation estimates 2) Fund status 3) Funding plan

In establishing the component inventory, one must review the documents and statutory requirements to determine which components are to be included in the common elements. Once common elements are established, you then must review the maintenance contracts to determine the appropriateness of including all or portions of a component for proper funding. One should then review the budget for components such as fences and sidewalks, which are generally replaced in small, low-cost increments. Next, confirm that the component funded in the overall budget is not also funded in the reserve. Identify all mechanical equipment. Generally, moving parts should be included and reviewed for their longevity. Then determine if the component will be normally excluded for repairs or replacements of the association's assets which have an estimated useful life expectancy equal to or exceeding the estimated useful life of the community itself. Not all common-area components require on-going preventive maintenance and therefore may not be required to be on the reserve schedule.

Selecting a Funding Method is the final step of the reserve planning process. Community associations typically set aside a separate section of the budget for the reserve. The study is normally prepared prior to the fiscal year end for use in the budget preparation process. There are four primary funding strategies, known as Full funding, Baseline funding, Threshold funding and Statutory funding.

Full funding is to attain and maintain the reserves at or near 100 percent.

Baseline funding is an approach to keep the reserve cash balance above zero at all times. This means that while each component may not be fully funded, the reserve balance should not drop below zero during the projected period.

Threshold funding is based on the baseline funding concept, but allowing a minimum reserve cash balance as the threshold. It relies upon a predetermined dollar amount as the threshold.

Statutory funding is based on local statutes which set aside a specific minimum amount of reserves as required by law.

Each community association has the task of devising a plan to provide income to a reserve fund to offset anticipated expenditures from that fund. No matter what funding method is used, the community association should always remember to review the fund balance over a period of time and or as it adds or deletes components that will affect the fund. Consequently, adjustments to the annual contribution rate should be made from time to time in order to assure adequate replacement funds are available when needed.

A reasonable methodology in reviewing a reserve study for purposes of assuring informative content, both now and into the future, is to gather the following:

Reserve Studies continue on Page 5

- * A summary of the community association's number of units, physical description, and reserve fund financial condition.
- * A projection of reserve starting balance, recommended reserve contributions, projected reserve expenses, and projected ending reserve fund balance for a minimum of 20 years.
- * A tabular listing of the component inventory, component quality or identifying descriptions, useful life, remaining useful life, and current replacement cost.
- * A description of methods and objectives utilized in computing the fund status and development of the funding plan.
- * Sources utilized to obtain component repair or replacement cost estimates.
- * A description of the level of service by which the reserve study was prepared.
- * Fiscal year for which the reserve study is prepared.

Reserve Studies can be very complex and sometimes difficult to read. However, the board of directors should feel confident and knowledgeable with the study provided to them. They should have a clear and concise understanding of the components identified and analyzed for proper funding before they provide their membership with the report. Asking questions of the preparer should be a standard part of any review. As the saying goes, "there are no dumb questions."

It is suggested that a summary of the reserve study be provided for general distribution. Such a summary should be as simple as possible for the board members to relay to the membership. The summary can be as basic as providing an Annual Expenditure Detail which generally provides the following summary:

Lists the replacement year i.e. 2002, 2003, 2004 etc.

Lists the repair/replacement required for that particular year i.e. wrought iron painting, and

Provides the amount of reserve expenditures to be paid out in a specific year.

Careful planning for future repairs and replacements allows the membership to know that the board of directors is taking its fiduciary responsibility seriously and that the directors are truly being good stewards of the association's money. There are professionals readily available to assist community associations in protecting the physical and fiscal needs of their communities for all the years ahead. That said, such safeguards always commence with the proper development and maintenance of sufficient reserves.

Vicki Ward, PCAM®, CMCA®, AMS®

More Associa Programs Specially Designed for Community Associations



Electricity

Communities managed by Associa® member companies throughout the nation purchase in excess of \$15,000,000 of electricity each

year. This large volume has enabled us to put together a savings program for our customers unlike any other in the country.

Newsletters



Associa® prints your association's newsletter in COLOR at black and white copy prices. Check with your community (or association) manager to take advantage of this enhanced and extremely effective communication tool.

A Message from the CEO & President:

Principal Management Group employees are very pleased to be settled into our new office located at Beltway 8 and Clay Road. It hardly seems possible that we have been here for nine months. If you have not had an opportunity to drop in and visit, please try to do so when you find the time.

Our new training room has certainly been put to good use during the past months. We have been honored to host several Community Association Institute live training sessions from this location as well as hosting a "Kick-Off" event for our exciting new magazine, **FrontDoor**, created for community association living.

FrontDoor, the magazine of Associa Living, exists to showcase and enhance the community association lifestyle while fostering a positive relationship between Associa and the residents of communities we manage. We further desire that our magazine promotes a sense of neighborhood spirit while adding genuine value for the reader.

We hope you have enjoyed **FrontDoor** magazine, as our gift to you. If for some reason you missed out on our delivery of the magazine, just let us know and we will ensure you receive one right away!

We truly appreciate the opportunity to serve your community and we enthusiastically look forward to terrific accomplishments for all during 2005.

Vicki Ward, PCAM
CEO & President of Principal Management Group



We are on the web!
www.pmg-houston.com

Continued from Front Page.....

The second phase of new construction review is plot plan review. This step involves the builder submitting a request to build a particular plan and elevation with chosen materials on a given lot. The plan is one that has already been approved by the developer and we know meets the guidelines. When we receive one of these requests we review it for the following items;

1) We make sure there is no repetition of the plan or elevation (elevation is how the front of the house looks). Each community has guidelines for how often and how close together plans and elevations can be built. 2) We review the site or plot plan to make sure the house is sitting on the lot in a manner where it doesn't violate the front, rear or side building lines. 3) We check to make sure the driveway doesn't interfere with light poles, manholes or utility boxes. 4) We check for special landscape requirements, fencing and for step-ups and retaining walls. 5) We verify that the chosen materials are not conflicting with the surrounding homes nor the community. Once we are certain this submittal falls in the guidelines, we take it to the developer for final approval.

Once construction begins on the lot we monitor the house to make sure all the items the builder was given permission to do are being done correctly. Additionally, we verify all guidelines are being adhered to in a timely manner.

The last phase of new construction review is the final inspection. Once a home is finished and before it closes, the building superintendent sends a request to PMG for a final inspection. As is part of our contract with the developer, these inspections must be done within 24 hours as very often these homes aren't finished until the last minute and the closing is riding on the heels of the final inspection. We go out to the community with a checklist for that home. We verify that all the requirements for the fencing, driveway, elevations and landscaping, etc... have been followed. We count the number of trees and plants. We check for screening of meter boxes and all equipment that is not behind a fence. If the home is in compliance on all items, we sign off on it and it is ready to close. If there are problems with the home, we contact the builder immediately so he can rectify the problem.

There is a lot of work seeing a house go through the phases of planning, construction and completion. But when you drive the neighborhood and see all the individual houses transform into a community and the homeowners enjoying their new residences, all the hard work is more than worth it.

Associa® Waste Removal Consulting Service

An innovative program specifically designed for Associa® Communities to provide value and cost savings on waste removal services through buying power and industry expertise.

The Associa® Plan Waste is a fact of life.

How can Associa® make a difference?

You see it in the newspapers and on TV all the time. This town doesn't want a landfill within its borders. That village opposes a recycling plant. It can't be disputed that rising land costs, high transportation expenses to distant landfills, environmental regulation, and ever increasing amounts of waste can only mean that this line item of your association's budget will continue to be under pressure.

Communities managed by Associa® member companies throughout the nation purchase in excess of \$10,000,000 of waste removal and recycling services each year. This large volume has enabled us to retain — at our own expense — a leading independent consultant who can negotiate with your current waste removal contractor to obtain lower prices without compromising service. Communities with annual purchasing volume that would normally be too small to create much negotiating leverage can "piggyback" on the total volume of Associa® managed communities. The program we've put together for our customers is unlike any other in the country.

How We Do It

We will use our extensive knowledge of the waste removal industry to improve your association's waste handling, storage and transportation efficiencies by eliminating duplications, increasing the effectiveness of your current program, negotiating an improved service contract with your vendor, and introducing innovative technology and state-of-the-art waste handling methods.

The Savings

Depending on the physical structure of a community association, the volume and type of waste and recycling services used, and the geographic location of the property, your association could see a reduction of 15% to 25% in waste removal expenses annually.

Savings means the difference between what your association spends for these services as a result of the efforts of Associa® and what it would have spent had your waste removal contract remained unchanged.

The Fee

Associa® pays all expenses related to the program, including consultant fees and expenses and all organizational and administrative costs. Associa® earns nothing unless your community association saves money. If your association's waste removal expense is reduced through our program, our fee equals 40% of your savings.

For more information contact:

Carol Boelsterli

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Second Annual Board Member of the Year Contest Now Underway

Associa, America's leading community association management firm, is in the process of its second annual Board Member of the Year Contest. Round one commences at the local level, with each of its member firms from across the country participating. Among those local members promoting the contest this year is Principal Management Group of Houston.

The local winners from among those communities managed by Principal Management Group of Houston will receive the following: First place, winning \$500, Second place, winning \$250 and Third place, winning \$100.

The local winners and their respective community associations will advance to the Associa national finals where the top three Board Members from across the country will be chosen. Those top three national winners will receive \$2000, \$1500, and \$1000, respectively, for their first, second, and third place finishes.

second, and third place finishes.

Associa, headquartered in Dallas, Texas, operates subsidiary management firms in 15 states, representing over 1 million residents. It boasts exceptional employee training, with services including assessment collection, accounting, maintenance oversight, and covenant enforcement. Judges for the Board Member of the Year contest are selected from a list of independent professionals from across the U.S. that provide support services to the community association industry. Each is familiar with the daily operations and oversight of community associations.

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of Houston**

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- *Community News and
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- *Search through Associa-
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OUR MISSION

Established upon the belief that true success is measured by more than profitability, Principal Management Group is committed to excellence in service and to the highest standards of honesty, reliability and innovation in our relations with both our clients and employees.