

**ADOPTED REGULATION OF
THE COMMISSION FOR COMMON-INTEREST
COMMUNITIES AND CONDOMINIUM HOTELS**

LCB File No. R050-13

Effective August 10, 2015

(This regulation corrects and replaces the version posted on August 10, 2015)

EXPLANATION – Matter in *italics* is new; matter in brackets ~~omitted material~~ is material to be omitted.

AUTHORITY: §§1 and 5-7, NRS 116.31152 and 116.615; §2, NRS 116.615; §3, NRS 116.3103 and 116.615; §4, NRS 116.31151 and 116.615; §8, NRS 116.31142 and 116.615; §§9, 10 and 13, NRS 116A.430; §§11 and 12, NRS 116A.420.

A REGULATION relating to common-interest communities; revising provisions governing reserve studies; revising provisions governing the duties of a member of the executive board of a homeowners' association; amending provisions governing the preparation of financial statements by an association; revising provisions governing the qualifications and duties of a person who conducts reserve studies; and providing other matters properly relating thereto.

Legislative Counsel's Digest

Existing law provides that in performing the duties of a member of the executive board of a homeowners' association, the member: (1) must act on an informed basis, in good faith and in the honest belief that his or her actions are in the best interest of the association; and (2) has duties of loyalty and care to the association. (NRS 116.3103) Under existing law, the Commission for Common-Interest Communities and Condominium Hotels may take administrative action against a member of the executive board who violates existing law governing the duties of members of the executive board and may adopt regulations to administer existing law governing common-interest communities. (NRS 116.615, 116.750) **Section 3** of this regulation amends existing regulations to specifically state that in determining whether a member of the executive board has performed his or her duties in accordance with existing law, the Commission may consider whether the member has caused the homeowners' association to consult with a registered reserve study specialist when the reserve study is conducted.

Existing law requires an association to establish adequate reserves for the repair, replacement and restoration of the portions of the common-interest community that the association is

obligated to maintain, repair, replace or restore. (NRS 116.3115) Existing law further requires the executive board to: (1) prepare and distribute a budget to provide adequate funding for the reserves; and (2) cause to be conducted a study of the reserves at least once every 5 years. (NRS 116.31151, 116.31152) **Section 1** of this regulation provides that this 5-year period commences on the date of the on-site inspection of the major components of the association's common elements. **Sections 4-7** of this regulation make various changes to existing regulations governing the information required to be included in the budget for the reserves and the contents and disclosures required to be included in the reserve study.

Existing law requires a summary of the reserve study to be submitted to the Real Estate Division of the Department of Business and Industry not later than 45 days after the executive board adopts the results of the study. (NRS 116.31152) **Section 7** requires the executive board to submit this summary to the Division within 210 days after receipt of a draft of the reserve study, which, in effect, establishes a period within which the executive board must adopt a reserve study after receipt of the draft.

Existing law generally requires the reserve study to be conducted by a reserve study specialist who is registered with the Division. (NRS 116A.420) Existing law requires the Commission to adopt regulations establishing the: (1) qualifications for registration as a reserve study specialist; and (2) standards of practice for reserve study specialists. (NRS 116A.420, 116A.430) **Section 9** of this regulation adds to existing regulations a requirement that to renew a registration as a reserve study specialist, the registrant must successfully complete 6 hours of continuing education. The courses must be approved by the Commission and consist of instruction relating to financial matters and the laws and regulations governing common-interest communities. **Section 10** of this regulation provides that to be eligible to register as a reserve study specialist, a person must successfully complete 3 hours of instruction in courses approved by the Commission relating to the laws and regulations governing common-interest communities. **Sections 11-13** of this regulation make various changes relating to the standards of practice for reserve study specialists and the grounds for disciplinary action against a reserve study specialist, including, without limitation, a requirement that a reserve study specialist maintain insurance for professional liability or a surety bond with a minimum coverage of \$1,000,000.

Existing law requires the Commission to adopt regulations prescribing requirements for the preparation and presentation of financial statements by an association. The regulations must include the standards and format to be followed in preparing and presenting financial statements of an association. (NRS 116.31142) **Section 8** of this regulation makes various changes to existing regulations governing the preparation and presentation of an association's interim financial statement.

Section 1. Chapter 116 of NAC is hereby amended by adding thereto a new section to read as follows:

For the purposes of paragraph (a) of subsection 1 of NRS 116.31152, the 5-year period for conducting a reserve study commences on the date on which the on-site inspection of the major components is performed.

Sec. 2. NAC 116.046 is hereby amended to read as follows:

116.046 “Major components” means the major components of the common elements, whether real or personal property, which the association is responsible for *maintaining*, repairing, replacing or restoring, including, without limitation, amenities, improvements, furnishings, fixtures, finishes, systems and equipment.

Sec. 3. NAC 116.405 is hereby amended to read as follows:

116.405 In determining whether a member of the executive board has performed his or her duties pursuant to NRS 116.3103, the Commission may consider whether the member of the executive board has:

1. Acted outside the scope of the authority granted in the governing documents;
2. Acted for reasons of self-interest, gain, prejudice or revenge;
3. Committed an act or omission which amounts to incompetence, negligence or gross negligence;
4. Except as otherwise required by law or court order, disclosed confidential information relating to a unit’s owner, a member of the executive board or an officer, employee or authorized agent of the association unless the disclosure is consented to by the person to whom the information relates;
5. Impeded or otherwise interfered with an investigation of the Division by:
 - (a) Failing to comply with a request by the Division to provide information or documents;

- (b) Supplying false or misleading information to an investigator, auditor or any other officer or agent of the Division; or
- (c) Concealing any facts or documents relating to the business of the association;
6. Kept informed of laws, regulations and developments relating to common-interest communities;
7. Cooperated with the Division in resolving complaints filed with the Division; and
8. Caused the association to:
- (a) Comply with all applicable federal, state and local laws and regulations and the governing documents of the association;
- (b) Uniformly enforce the governing documents of the association;
- (c) Hold meetings of the executive board with such frequency as to properly and efficiently address the affairs of the association;
- (d) Obtain, when practicable, at least three bids from reputable service providers who possess the proper licensing before purchasing any such service for use by the association;
- (e) Consult with appropriate professionals as necessary before making any major decision affecting the association or the common elements **§**, *including, without limitation, consulting with a reserve study specialist who is registered pursuant to chapter 116A of NRS and chapter 116A of NAC when conducting the reserve study, as required by subsection 2 of NRS 116.31152 and NRS 116A.420;*
- (f) Deposit all funds of the association for investment in government securities that are backed by the full faith and credit of the United States or in a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation, the National Credit Union

Share Insurance Fund, the Securities Investor Protection Corporation or a private insurer approved pursuant to NRS 678.755;

(g) Maintain current, accurate and properly documented financial records;

(h) Establish policies and procedures for the disclosure of potential conflicts of interest and the appropriate manner by which to resolve such conflicts;

(i) Establish policies and procedures that are designed to provide reasonable assurances in the reliability of financial reporting, including, without limitation, proper maintenance of accounting records, documentation of the authorization for receipts and disbursements, verification of the integrity of the data used in making business decisions, facilitation of fraud detection and prevention, and compliance with the applicable laws and regulations governing financial records;

(j) Prepare interim and annual financial statements that will allow the Division, the executive board, the units' owners and the accountant or auditor to determine whether the financial position of the association is fairly presented in accordance with the provisions of NAC 116.451 to 116.461, inclusive;

(k) Make the financial records of the association available for inspection by the Division in accordance with the applicable laws and regulations of this State;

(l) Cooperate with the Division in resolving complaints filed with the Division; and

(m) Adopt and fairly enforce the collection policies of the association.

Sec. 4. NAC 116.415 is hereby amended to read as follows:

116.415 An executive board shall, in addition to the requirements set forth in paragraph (b) of subsection 1 of NRS 116.31151, include in the budget to maintain the reserve:

1. An estimate of the amount of reserve funds necessary in the projected fiscal year, based on ~~comparative bids or~~ industry standards, to complete the *maintenance*, repairs, replacement

or restoration of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore as recommended in the study of reserves conducted pursuant to NRS 116.31152; and

2. If the projected balance of the reserve account at the end of the budgeted fiscal year is less than the amount required to adequately fund the reserves on a reasonable basis at the end of the budgeted fiscal year, as determined by the study of reserves conducted pursuant to NRS 116.31152:

- (a) The reason for the difference; and
- (b) How this difference is proposed to be resolved by the executive board.

Sec. 5. NAC 116.425 is hereby amended to read as follows:

116.425 1. A reserve study must, in addition to the requirements set forth in NRS 116.31152, include:

(a) ~~{A copy of the component inventory from the previous reserve study if such copy was provided by the executive board to the person conducting the reserve study;~~

~~—(b)}~~ A 30-year schedule which shows:

(1) The *actual or projected beginning balance of the reserve fund;*

(2) *The projected increase in {assessments} reserve contributions to the reserve fund, adjusted for inflation,* that will be required in any given year to provide ~~{an}~~ adequately funded ~~{reserve;~~

~~—(2)}~~ *reserves;*

(3) The ~~{projected inflation and}~~ estimated interest income ~~{from}~~, *net of projected federal income tax, earned in* the reserve fund; ~~{and}~~

~~—(3)}~~

(4) *The projected expenditures from the reserve fund; and*

(5) The projected ending balance of the reserve fund;

~~(e)~~ **(b)** The names and credentials of any consultants and other persons with expertise used to assist in the preparation of the reserve study;

~~(d)~~ **(c)** Any written reports prepared by consultants and other persons with expertise;

~~(e)~~ **(d)** If there are any conflicting recommendations of the consultants or other persons with expertise while preparing the reserve study, a written explanation as to which recommendations ~~are~~ *were* selected and the reasons for their selection;

~~(f)~~ **(e)** The number of units in the association;

~~(g)~~ **(f)** A general statement describing the current status of the reserve fund;

~~(h)~~ **(g)** A general statement describing the ~~objectives of the reserve study and the methods used in computing and evaluating the current~~ *overall* status of the ~~reserve fund~~;

~~(i)~~ **(h)** *A statement of the reserves of the association;*

(h) *The beginning and ~~the end of the fiscal year~~ ending dates* for which the reserve study is prepared;

~~(j)~~ **(i)** ~~A projection of the initial balance of the reserve fund;~~

~~(k)~~ **(i)** A general statement describing the *reconciliation*, development or computation of the initial balance of the reserve fund;

~~(l)~~ **(j)** A ~~tabular statement~~ *listing and detailed description of each major component of the common elements;*

(k) *A table* showing the remaining useful life of each major component of the common elements from the time of each component's initial *or last* installation ~~;~~

~~(m)~~ **(j)** *, maintenance, repair, replacement or restoration;*

(l) Using the current replacement cost, a 30-year table that reflects the projected ending reserve fund balance for each year as compared to the fully funded balance for that year;

*(m) A general statement ~~prepared in accordance with generally accepted accounting principles~~ describing the objectives of the funding plan that is designed to allocate the costs for the ***maintenance***, repair, replacement and restoration of the major components of the common elements and the methods used in ~~carrying out~~ ***projecting*** the ***30-year*** funding plan, ***using the following terms*** and discussing, where applicable:*

~~(1) Cash flow;~~

~~—(2) Full funding;~~

~~(3) (2) Threshold funding; and~~

~~(4) (3) Baseline funding;~~

*(n) A statement identifying the sources relied upon to obtain an estimate for the cost to ***maintain***, repair, replace or restore a major component of the common elements;*

(o) A detailed description of the type of reserve study that was performed and the level of service accorded to the reserve study, including whether the reserve study was:

*(1) A full reserve study ~~is~~ ***in which the following tasks were performed:****

(I) An inventory and measurement of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore;

(II) An assessment of the condition of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore, which is based upon on-site visual observations if such components and portions are reasonably accessible for such observation;

(III) Estimates of the remaining useful life and valuation of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore;

(IV) Financial analysis of data and the status of the reserve fund; and

(V) Development of a funding plan;

(2) An update to a previous reserve study made pursuant to a visit to the site of the common-interest community ~~in~~ *in which the following tasks were performed:*

(I) A verification of a previous inventory of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore. Unless new major components of the common elements have been added, or the existing inventory of major components of the common elements has changed, since the last reserve study, a quantification of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore is not required;

(II) An assessment of the condition of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore, which is based upon on-site visual observations if such components and portions are reasonably accessible for such observation;

(III) Estimates of the remaining useful life and valuation of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore;

(IV) Financial analysis of data and the status of the reserve fund; and

(V) Development of a funding plan; or

(3) An update to a previous reserve study made without a visit to the site of the common-interest community ~~{}~~ *in which the following tasks were performed:*

(I) Estimates of the remaining useful life and valuation of the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore;

(II) Financial analysis of data and the status of the reserve fund; and

(III) Development of a funding plan;

(p) The disclosures set forth in NAC 116.430; and

(q) A statement, prominently displayed, which reads substantially as follows:

(1) The projected life expectancy of the major components and the funding needs of the reserves of the association are based upon the association performing appropriate routine and preventative maintenance for each major component. Failure to perform such maintenance can negatively impact the remaining useful life of the major components and dramatically increase the funding needs of the reserves of the association.

(2) Material issues which are not disclosed to the person conducting the study of the reserves would cause the condition of the association to be misrepresented.

2. As used in this section, “adequately funded ~~{reserve}~~ *reserves*” means the funds sufficient to maintain the common elements:

(a) At the level described in the governing documents and in a reserve study; and

(b) Without using the funds from the operating ~~budget~~ *accounts* or without special *or reserve* assessments, except for occurrences that are a result of unforeseen catastrophic events.

Sec. 6. NAC 116.430 is hereby amended to read as follows:

116.430 A person conducting a reserve study and any consultant assisting in the preparation of a reserve study shall include in the reserve study the following disclosures:

1. The background, training, qualifications and references that would qualify the person conducting or assisting in the preparation of the reserve study as competent to conduct or assist in the preparation of the reserve study.
2. Any relationship which could result in actual or perceived conflicts of interest.
3. Whether the person conducting or assisting in the preparation of the reserve study is bonded or has professional liability insurance ~~with~~ *with a minimum coverage of \$1,000,000.*
4. The method *or methods* for determining the common area components based on:
 - (a) An actual ~~field~~ *on-site* inspection of the common elements with representative sampling;
 - (b) An inventory and material information provided by the client; ~~or~~
 - (c) A previous reserve study and the date of that study ~~with~~; *or*
 - (d) Plats, governing documents or any other additional industry resources used by the person conducting or assisting in the preparation of the reserve study.*
5. Industry sources used for determining:
 - (a) The life of a major component ~~with~~ *of the common elements*; and
 - (b) The cost of *maintaining*, repairing, replacing or restoring a major component ~~with~~ *of the common elements.*

6. ~~{Any}~~ *If known, any* guarantees, express or implied, that are ~~{given}~~ *provided by any component manufacturer or service provider*, with the predictions ~~{for}~~ *that would affect* the cost or life expectancy of any of the major components.
7. The source of the ~~{information regarding the}~~ initial reserve fund balance presented in the reserve study.
8. Whether a ~~{special}~~ *reserve* assessment is anticipated during the ~~{time of the contracted}~~ *current 30-year life of the* reserve study.
9. *The source of the interest rate and inflation rate assumptions used in the 30-year projection contained in the reserve study.*
10. A statement, prominently displayed, which reads substantially as follows:

Information provided to the preparer of a reserve study by an official representative of the association regarding financial, historical, physical, quantitative or reserve project issues will be deemed reliable by the preparer. A reserve study will be a reflection of information provided to the preparer of the reserve study. The total of actual or projected reserves required as presented in the reserve study is based upon information provided that was not audited.

A reserve study is not intended to be used to perform an audit, an analysis of quality, a forensic study or a background check of historical records. An on-site inspection conducted in conjunction with a reserve study should not be deemed to be a project audit or quality inspection.

~~{10. — Material issues which, if not disclosed, would cause the condition of the association to be misrepresented.}~~

11. *A listing of any significant components of the common-interest community that the association may be obligated to maintain, repair, replace or restore which are not included in the funding projection in the reserve study and the reason for excluding those components from that funding projection.*

12. For updated reserve studies, a statement, prominently displayed, which reads substantially as follows:

Quantities of major components *of the common elements* as reported in previous reserve studies are deemed to be accurate and reliable. ~~{The}~~ *This* reserve study relies upon the validity of previous reserve studies.

Sec. 7. NAC 116.435 is hereby amended to read as follows:

116.435 ~~{An}~~ *Not later than 210 days after the executive board receives a draft of the reserve study, the* executive board shall submit a summary ~~{of the results}~~ of the reserve study to the ~~{Commission}~~ *Division* pursuant to subsection 4 of NRS 116.31152 by filing, electronically if possible, on ~~{a form}~~ *Form 609 as* prescribed by the Division, the summary of the results of the reserve study with the Division. The Division may post the summary of the results of the reserve studies filed with the Division on its website.

Sec. 8. NAC 116.451 is hereby amended to read as follows:

116.451 The interim financial statements of an association may be prepared using fund accounting or a single-column presentation and must:

1. ~~Include, at a minimum, a month-to-date and year-to-date presentation of:~~
 - ~~(a) The~~ *Present a* balance sheet ~~including~~ *that reflects the* operating ~~and~~ *funds*, reserve *funds* for future repairs and ~~replacement~~ *replacements and any other funds of the association.*
 2. *List the* assets, liabilities and fund balances or members' equity if a single-column format is used. ~~;~~
 - ~~(b)~~ 3. *Include, at a minimum, a month-to-date and year-to-date presentation of:*
 - (a) The statement of revenues and expenses for all operating, ~~and~~ reserve *and other* activities, presenting information about all assessments, revenues and expenses;
 - ~~(e)~~ (b) A schedule comparing the details of the actual expenses of the association with the expenses budgeted for the association;
 - ~~(d)~~ (c) Any changes in the fund balances to be presented on the *balance sheet or* statement of revenues and expenses ; ~~if fund accounting is used;~~ and
 - ~~(e)~~ (d) A footnote *or disclosure* which states that the association is in compliance with paragraph (b) of subsection 2 of NRS 116.3115 and that reserve funds have not been used for daily maintenance.
- ~~2.~~ 4. Be prepared ~~on a full~~ *using* accrual basis ~~;~~
~~3.~~ *of accounting in accordance with generally accepted accounting principles.*
5. Be prepared by, or the preparation of the interim financial statements must be supervised by, a person with accounting knowledge and experience in the preparation of financial statements.
- ~~4.~~ 6. Be distributed monthly, promptly upon completion, to the treasurer of the association, the community manager *if the association is professionally managed* and each member of the executive board.

Sec. 9. NAC 116A.415 is hereby amended to read as follows:

116A.415 1. To register with the Division as a reserve study specialist ~~{}~~ *or renew a registration*, a person must submit:

(a) A registration on a form prescribed by the Division which includes the name and business address of the person registering as a reserve study specialist ~~{}~~ *or renewing his or her registration*; and

(b) A fee in an amount to be established annually by the Division to cover the administrative cost of registering the person ~~{}~~ *or renewing the registration*.

2. A registration as a reserve study specialist ~~{expires}~~ *is valid for* 2 years after the date on which the registration ~~{and fee required by subsection 1 are submitted to}~~ *is issued by* the Division, unless , *before the expiration date stated on the registration card*, the reserve study specialist ~~{submits to the Division another}~~ *renews his or her registration*.

3. To renew a registration as a reserve study specialist, the registrant must:

(a) Successfully complete at least 6 hours of continuing education in courses approved by the Commission, which must consist of:

(1) Three hours of instruction relating to chapters 116, 116A and 116B of NRS and the regulations adopted pursuant thereto, with an emphasis on recent changes to those chapters and regulations; and

(2) Three hours of instruction relating to financial matters; and

(b) Submit to the Division:

(1) Another registration and fee required by subsection 1 ~~{before that date.}~~ ; and

(2) Documentation of the successful completion of the continuing education required by paragraph (a).

Sec. 10. NAC 116A.420 is hereby amended to read as follows:

116A.420 1. A person is qualified by training and experience to register as a reserve study specialist if the person has:

- (a) A good reputation for honesty, trustworthiness and integrity;
- (b) The ability to evaluate the items on the component inventory with regard to normal and accelerated deterioration, deferred maintenance, remaining years of useful life and the current cost to *maintain*, repair, replace or restore;
- (c) The ability to perform *necessary* financial analysis, cost estimates and 30-year projections, as applicable;
- (d) The ability to review improvement plans and specifications, maintenance histories, recorded plats and governing documents of the association in order to compile a complete component inventory and to consult with the executive board to ascertain and confirm that the component inventory is complete;
- (e) The ability to gather and analyze *relevant* financial data, including, without limitation, monthly assessment fees per unit, the current ~~balance of reserves,~~ *reserve accounts*, the anticipated *tax rates on earnings, the anticipated* interest rate on reserves, and the anticipated inflation and maximum increases in assessment fees; ~~and~~
- (f) *Successfully completed at least 3 hours of education in courses approved by the Commission relating to chapters 116, 116A and 116B of NRS and the regulations adopted pursuant thereto, with an emphasis on recent changes to those chapters and regulations; and*
- (g) The background and knowledge pertinent to all areas to be addressed by the reserve study.

2. If the Division finds that a person who has submitted a registration to the Division is not qualified by training and experience to register as a reserve study specialist, the Division shall:

(a) If the Division has not yet registered the person, refuse to register the person as a reserve study specialist.

(b) If the Division has registered the person, revoke the registration.

Sec. 11. NAC 116A.425 is hereby amended to read as follows:

116A.425 1. A reserve study specialist who prepares a reserve study shall:

(a) Comply with the applicable provisions of chapter 116, 116A or 116B of NRS or any regulations adopted pursuant thereto;

(b) Comply with the relevant lawful provisions of the governing documents of each client;

(c) Agree to perform only those reserve studies which the person can reasonably expect to perform with professional competence;

(d) Exercise due care and exhibit adequate planning and supervision of conduct relating to the performance of a reserve study;

(e) Disclose in writing to the client any actual, potential or perceived conflict of interest if the client has dealings with another person who:

(1) Has a financial interest in the business relationship between the reserve study specialist and the client; or

(2) Is an employee of or otherwise affiliated with the association;

(f) Maintain an inventory of reserve study records of each client for at least 6 years;

(g) Keep informed of new developments in the field of reserve studies through continuing education, including, without limitation, new developments in the law, methods of funding and other topics necessary for the proper preparation of reserve studies;

(h) Ensure that the information used to prepare a reserve study is complete based upon information provided by the client , *the reserve study specialist's experience and background* and from data reasonably available from industry sources; ~~and~~

(i) *Maintain insurance covering liability for professional liability or a surety bond with a minimum coverage of \$1,000,000; and*

(j) Cooperate with the Division in any investigation conducted pursuant to the provisions of chapter 116, 116A or 116B of NRS or any regulations adopted pursuant thereto.

2. A reserve study specialist who prepares ~~a~~ reserve ~~study~~ *studies* shall not ~~+~~ *knowingly:*

(a) Make inaccurate or misleading representations or statements to a prospective client; or

(b) Misrepresent facts for his or her own benefit.

Sec. 12. NAC 116A.430 is hereby amended to read as follows:

116A.430 Before entering into a contract to perform a reserve study, a reserve study specialist shall disclose in writing to the prospective client any material and relevant information that the reserve study specialist knows or should know relates to the performance of the contract for the reserve study, including, without limitation, any matters which may affect his or her ability to comply with the provisions of chapter 116, 116A or 116B of NRS or any regulations adopted pursuant thereto. Such disclosure must include, without limitation:

1. Whether the reserve study specialist expects to receive any direct or indirect compensation or profits from any person who will perform services for the client and, if so, the identity of the person;

2. His or her affiliation with or financial interest in any person who furnishes any goods or services to the association for which the reserve study specialist will prepare the reserve study; and

3. His or her personal relationship with any ~~{unit's owner,}~~ member of the executive board or officer of the association for which the reserve study specialist will prepare the reserve study.

Sec. 13. NAC 116A.435 is hereby amended to read as follows:

116A.435 1. A reserve study specialist is subject to disciplinary action if the reserve study specialist:

(a) Commits any of the following:

- (1) Unprofessional conduct;
- (2) Professional incompetence;
- (3) ~~{Negligence or gross}~~ **Gross** negligence; or
- (4) A felony or any offense involving moral turpitude; or

(b) Has ever had a permit, license or designation from a nationally recognized professional organization that authorizes him or her to act as a reserve study specialist in another jurisdiction revoked or suspended.

2. A reserve study specialist commits an act of unprofessional conduct if the reserve study specialist:

(a) Violates the provisions of:

- (1) An order of the Commission;
- (2) An agreement with the Division; or
- (3) Chapter 116, 116A or 116B of NRS or any regulation adopted pursuant thereto;

- (b) Engages in deceitful, fraudulent or dishonest conduct, including, without limitation, knowingly communicating false, misleading or fraudulent information to a client;
- (c) Submits a registration which contains a false statement of material fact;
- (d) Fails to cooperate with the Division in the investigation of a complaint, including, without limitation, failure to produce any document, book or record in the possession or control of the reserve study specialist after the Division requests the production of such document, book or record in the course of investigating a complaint;
- (e) Fails to perform impartially and consistently an activity that is lawful and properly authorized on behalf of a client or fails to perform a duty or obligation owed to a client because of the age, race, color, religion, national origin, disability, marital status, familial status, sex , *sexual orientation* or ethnicity of any person, including, without limitation, a member of the executive board, an officer of the association ~~};~~ *or* a unit's owner ; ~~}; a tenant of the common-interest community or a visitor of the common-interest community;}~~ or
- (f) Exceeds the authority granted to him or her by the client.

3. A reserve study specialist commits an act of professional incompetence if, without limitation, the reserve study specialist:

- (a) Demonstrates a significant lack of ability, knowledge or fitness to perform a duty or obligation owed to a client; or
- (b) Fails to exercise reasonable skill and care with respect to a duty or obligation owed to a client.

4. In determining whether a reserve study specialist has committed unprofessional conduct or professional incompetence, the Commission and the Administrator may consider, without limitation, whether the reserve study specialist has:

- (a) Done his or her utmost to protect the public against misrepresentation or unethical practices relating to the ~~{business affairs of the client;}~~ *reserve study*;
- (b) Made reasonable efforts to acquire knowledge of all pertinent facts concerning a client, including, without limitation, all material facts regarding the reserve study that are reasonably ascertainable and are of customary or express concern to the client, and conveyed that knowledge to the client;
- (c) Provided or attempted to provide to a client services for which the reserve study specialist does not have the appropriate knowledge or experience;
- (d) Complied with the disclosure requirements of NAC 116A.430;
- (e) Complied with the client's applicable governing documents, policies and procedures as they relate to a reserve study;
- (f) Kept informed of current statutes and regulations relating to common-interest communities;
- (g) Acted in the best interest of the client;
- (h) Ensured that each agreement for services of the reserve study specialist was in writing;
and
- (i) Obtained all changes of contractual terms in writing and ensured that such changes are signed or initialed by the parties concerned.

**LEGISLATIVE REVIEW OF ADOPTED REGULATIONS AS REQUIRED BY
NRS 233B.066
LCB FILE R050-13**

The following statement is submitted for adopted amendments to Nevada Administrative Code (NAC) Chapters 116 and 116A.

1. A clear and concise explanation of the need for the adopted regulation.

LCB File No. R050-13 amends NAC 116 and 116A revising provisions governing reserve studies and provisions governing the duties of a member of the executive board of a homeowners' association; amending provisions governing the preparation of financial statements by an association; revising provisions governing the qualifications and duties of a person who conducts reserve studies.

The need for the proposed regulation is to give clarification to homeowners' association boards regarding the preparation of the reserve study. The proposed regulation provides clarification on how and when the reserve should be prepared. The proposed regulation also adds protection to the public by require that reserve study specialists have adequate education and insurance.

2. A description of how public comment was solicited, a summary of public response, and an explanation how other interested persons may obtain a copy of the summary.

The Commission for Common-Interest Communities and Condominium Hotels (Commission) had a standing agenda item which included discussion to review Chapters 116, 116A and 116B of the Nevada Administrative Code for the purpose of making recommendations for proposed amendments, additions, and deletions. At each meeting, the Commission invited comments from the public.

The agenda for the June 11-13, 2013 Commission meeting was posted on the Real Estate Division's (Division) website and distributed through the Division's posting list. The agenda indicated discussion and possible action by the Commission to amend regulations NAC 116.405, NAC 116.415, NAC 116.425, NAC 116.430, NAC 116.435, NAC 116A.415, 116A.420, NAC 116A.425, NAC 116A.430, NAC 116A.435 and NAC 116A.440 relating to reserve studies and NAC 116.451 regarding the preparation, contents and distribution of interim financial statements. The Commission provided a document with proposed changes to review. After discussion, the Commission directed the Division to prepare proposed language for a workshop at the next meeting held August 27-29, 2013. The proposed language became LCB File No. R050-13.

The Division posted a Small Business Impact Statement dated August 15, 2013 on the Division's website with the Notice of Workshop scheduled for August 28, 2013. The Division received written comment from a member of the public regarding Section 11 of the proposed regulation questioning the Commission's authority to require reserve study

specialists to carry surety bonds. Written public comment was submitted requesting changes to LCB File R050-13 regarding the start date to conduct a reserve study, the number of days that a summary of a reserve study shall be submitted to the Division, the items required to be included within a reserve study and the requirements to apply and renew a reserve study specialist registration.

The Division posted a Small Business Impact Statement dated February 5, 2015 on the Division's website with the Notice of Workshop scheduled for March 3, 2015. Public comment was given regarding the commencement date of the five year period to conduct a reserve study. The former commissioner who initiated the proposed regulation gave clarification on the proposed changes and submitted written public comment implementing some of the recommended changes from public comment submitted at past workshops. The Commission moved to proceed with an adoption hearing for the proposed regulation as presented.

Interested persons may obtain a summary from:
Teralyn Thompson, Administration Section Manager
Nevada Real Estate Division
2501 East Sahara Avenue, Suite 303
Las Vegas, NV 89104
tlthompson@red.state.nv.us
702-486-4036

3. The number of persons who:

(a) Attended each hearing:

August 28, 2013: 23
March 3, 2015: 38
July 9, 2015: 11

(b) Testified at each hearing:

August 28, 2013: 5
March 3, 2015: 6
July 9, 2015: 0

(c) Submitted to the agency written comments: 6

4. A list of names and contact information, including telephone number, business address, business telephone number, electronic mail address, and name of entity or organization represented, for each person identified above in #3, as provided to the agency, is attached as Exhibit A.

Please see attached.

5. **A description of how comment was solicited from affected businesses, a summary of their response, and an explanation how other interested persons may obtain a copy of the summary.**

Comments were solicited from affected businesses in the same manner as they were solicited from the public. The summary may be obtained as instructed in the response to question #2.

6. **If the regulation was adopted without changing any part of the proposed regulation, a summary of the reasons for adopting the regulation without change.**

The proposed regulation was adopted on July 9, 2015, and included changes suggested at workshops and the adoption hearing conducted.

7. **The estimated economic effect of the adopted regulation on the businesses which it is to regulate and on the public. These must be stated separately, and each case must include:**

Business which it is to regulate

(a) Both adverse and beneficial effects; and

Adverse effects: Comments in opposition were made regarding the added amendment to section 1 in which the five year period for conducting a reserve study starts on the date on which the on-site inspection is performed. All comments suggested the five year period commence on the first day of the association's fiscal year. There were comments that the reserve study specialist might not know when the last on-site inspection was done.

Beneficial effects: The proposed regulation provides clarification to associations and reserve study specialist regarding preparation of financial statements.

(b) Both immediate and long-term effects.

Immediate effects: The proposed changes in LCB File No. R050-13 provide clarity to association boards as to what is needed in the required full reserve study, or an update to a previous reserve study, in order to ensure appropriate contributions when funding the reserve fund. The requirements for a reserve study specialist in NAC 116A will ensure a high level of competence of reserve preparers.

Long-term effects: Proposed amendments to LCB File No. R050-13 is intended to assist association boards in performing their fiduciary duties to a high level on behalf of all owners in the association.

Public

(a) Both adverse and beneficial effects:

Adverse effects: LCB File No. R050-13 might have an adverse effect on small self-managed associations who are required by law to conduct a study of the reserves but have not.

Beneficial effects: LCB File No. R050-13 is beneficial to homeowners who live in a common-interest community because it provides clarification to executive boards regarding preparation of financial statements.

(b) Both immediate and long-term effects:

Immediate effects: The proposed changes in LCB File No. R050-13 provide clarity to association boards as to what is needed in the required full reserve study, or an update to a previous reserve study, in order to ensure appropriate contributions when funding the reserve fund. The requirements for a reserve study specialist in NAC 116A will ensure a high level of competence of reserve preparers.

Long-term effects: Proposed amendments to LCB File No. R050-13 is intended to assist association boards in performing their fiduciary duties to a high level on behalf of all owners in the association.

8. The estimated cost to the agency for enforcement of the adopted regulation.

There is no additional cost to the agency for the implementation of LCB File No. R050-13.

9. A description of any regulations of other state or government agencies which the proposed regulation overlaps or duplicates and a statement explaining why the duplication or overlapping is necessary. If the regulation overlaps or duplicates a federal regulation, the name of the regulating federal agency.

There are no other state or government agency regulations that the proposed regulation duplicates.

10. If the regulation includes provisions that are more stringent than a federal regulation which regulates the same activity, a summary of such provisions.

There are no federal regulations that apply.

11. If the regulation provides a new fee or increases an existing fee, the total annual amount the agency expects to collect and the manner in which the money will be used.

The regulation does not provide a new fee or increase an existing fee.