

APRA Advisor

Association of Professional Reserve Analysts (APRA) is a nonprofit corporation established in 1995 by principals of America's leading reserve study companies. The purpose of APRA is to provide a forum to establish a common base of knowledge, standards of care and professionalism within the reserve study industry.

The **APRA Advisor** is a bimonthly publication designed to expand the understanding of reserve planning and increase awareness of **Professional Reserve Analysts**.

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Contact Information

Executive Director: Debra Pass
W175 N11117 Stonewood Dr. Ste 204
Germantown, WI 53022

Phone: 877.858.5047
Fax: 262.532.2430

Email: APRA@TEAMwi.com
Website: www.apra-usa.com

Annual Roof Inspection Checklist

A well designed and maintained roof is arguably a reserve study's most critical component. When performing properly, it sheds water away from the building and keeps the structure dryrot free. But roofs take a beating and need to be inspected every year to ensure they are doing the job. Here is a handy checklist.

Exterior Roof Inspection:

Using binoculars, look at overall appearance of the roof. In particular, look for the following indicators of potential roof problems:

- ✓ Are there any blistered, curled or split shingles? A few can be repaired, but if the general appearance is poor, it may be time for a new roof.
- ✓ Are there loose or missing shingles, shakes, or tiles?
- ✓ Are there any exposed nails? Over time as the roof deck flexes, poorly attached nails can work themselves out and pop through the shingles, creating a source of leaks.
- ✓ If your roof is covered with composition shingles, look for dark patches which will indicate the surfacing material has worn away.
- ✓ Look for significant accumulation of granules in your gutters. Some granules are normal, but if you find a lot combined with dark patches on your shingles, it is a sign of an aging roof.
- ✓ Look for sagging along the ridges or in the middle of the roof.
- ✓ Look for cupping of shingles, which can detour water sideways instead of toward the gutters.
- ✓ Check where ridges and hips meet. Shingles may break or work loose at these spots.
- ✓ Rusty metal or displaced shingles along valleys are sure signs of roof weakness.
- ✓ Inspect the flashing around the pipes and chimneys.
- ✓ Loose chimney step flashing is another sign of trouble. Chimney

counter flashing should be well embedded in mortar joints between the bricks.

- ✓ Check overhangs for sagging and signs of dryrot such as peeling paint or cracks in the wood.
- ✓ Check siding, soffits, fascia boards, and window casings for water marks and leak stains.
- ✓ Check the gutters closely for sagging, pulling away from fascia or rafter tails and signs of leaks between sections. Are the downspouts firmly in place and directing water away from the foundation?

Interior Roof Inspection from Inside:

- ✓ In the attic, using a strong flashlight, look for signs of leaks. Dark stains on the rafters or the underside of the roof decking material generally indicate water trails. Look for signs of water around plumbing vent pipes and along chimneys, skylights, and valleys. If dark spots are found, see if they are still wet or old. Push a sharp screwdriver into the wood. If it is soft, it is a sign of rot. If the wood is stained but still dry and firm during the rainy season, it may be an old leak that has been repaired.
- ✓ Look for any pinpoints of light. If one is found, run a thin length of wire up through it so it can be found on the roof.
- ✓ Look for sagging sheathing between the rafters. This is but one sign of an old roof in need of repair or replacement. Sagging or cracked rafters will certainly require repair or replacement as part of a new roof installation.
- ✓ Check ceilings for water stains. Look around bathroom and kitchen vents and fireplaces. Check window casings and light fixtures.

Flat Roof Inspection:

- ✓ Look for any blisters or bubbles on the roof surface. If not already broken, they will eventually break, which may allow water to enter the roof. If any blisters are found, they

- can be sliced with a knife and patched with roofing mastic/cement.
- ✓ Look for depressions around vent pipes where water can collect and begin leaking through cracks in the roof surface. These also can be filled with patching compounds.
- ✓ Check all flashing for any separations by the parapet that rings the flat roof.
- ✓ Make sure roof and drains/scuppers are clear of debris so water can run off without interruption. **APRA**

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Reserve Study Tutorial

Every homeowner association should develop a long range plan to properly maintain common area components like roofs, siding and decks. Healthy reserve funds are critical because:

- ◆ Buyers finding lack of reserves back out of real estate purchases.
- ◆ Lenders finding lack of reserves may not lend money.
- ◆ The board has a fiduciary responsibility to plan for predictable expenses.
- ◆ The costs of maintaining the property will be fairly shared by all owners.
- ◆ The Reserve Study provides a predictable maintenance plan.
- ◆ A healthy Reserve Fund helps maintain the highest market value of member homes.

- ◆ Adequate reserves help avoid special assessments which are both unfair and difficult to collect.

To conduct a Reserve Study, you need the following information:

- ◆ Component descriptions
- ◆ Measurement of each component
- ◆ Current replacement or repair cost of each component
- ◆ Year built or placed in service
- ◆ Useful life expectancy in years

Step 1 - Make a List of all Common Elements. These are defined in your governing documents. Some examples include Decks, Patios, Gutters & Downspouts, Roofing, Siding Repair, Elevator Renovation, Fire Protection Equipment, Pavement Overlayment & Sealcoating, Restriping, Pool Equipment, Furniture, Pool Replastering, Fences and Signage.

To ensure a thorough list, consider all structures on the property, not just the most obvious ones. For example, unit roofs are obvious but don't overlook garage and clubhouse roofs. If similar items are built or placed in service in the same year, lump them together as a single line item and note the total number of items; if not, list them as separate line items. This will be the case in HOAs which were built in phases.

Document any assumptions made to eliminate confusion. For example: "The boat dock is not being reserved for. It was decided by a vote of the members to remove it at the end of its useful life. See May 2001 Annual Meeting minutes."

Step 2 - Determine Life Expectancy & Replacement Cost. These items go together. Check HOA records for work that has been done to determine an item's Life Expectancy and Replacement Cost. If the developer is still available, request construction detail and cost information. If you are in an older development, ask qualified contractors. Some contractors may require a nominal fee for a detailed estimate however, most will credit payment for an estimate toward any work done within a reasonable time frame.

You can also obtain costs for labor,

material, and useful lives through cost estimating resources like RS Means or Craftsman Books that provide national construction costs indexed to your area. This is generally sufficient for long range planning purposes. If you use these services, always get a detailed local estimate a few years before the end of a component's useful life for a more accurate cost.

Step 3 - Establish a Funding Plan.

You now have all the required information to complete a Reserve Study. Next, you must select a funding strategy. This decision is very important and has serious financial implications. The preferred funding strategy combines reserve contributions, expenditures, inflation, interest earned on invested reserves and taxes payable on interest earned over a 30 year period in order to determine a reasonable and regular reserves contribution (usually monthly with common wall HOAs) to avoid the need to have special assessments.

A Reserve Funding Plan requires:

1. Fiscal Year Starting Balance in Reserves.
2. Interest Rate Return on Invested Reserve. Reserve funds should be placed in insured investments like CDs-Certificates of Deposit and Treasury Notes. The longer the money is committed the higher the return. For example, two year CDs return higher interest than one year CDs which return higher interest than six month CDs. Investing in stocks, bonds, mutual etc. is an option but due to higher risks, the board should never do so unless the members agree in a Reserves Investment Resolution which authorizes it to do so.
3. Taxes. There are two ways to report financial activities to the IRS: Form 1120H is the tax form specifically designed for homeowner associations and is likened to the 1040EZ for its relative simplicity. The tax rate for 1120H filers is 30%. Form 1120 is an option for all incorporated HOAs (and all should be). While it is more complex, it carries a tax rate of 15%. Since healthy reserve funds can often rise to hundreds of thousands or even millions of dollars, it is usually prudent to use the Form 1120 and

cut the tax rate in half when it makes sense to do so. Check with a knowledgeable CPA.

4. Inflation Factor. Incorporating the current area inflation rate is important because over a 30 year period, it will dramatically affect costs and the reserves needed. See InflationData.com
5. Annual Review & Revision. (Extremely important) In conjunction with your annual budget review, review your Reserve Study in the areas listed below. A change in any will often have a profound effect on your funding plan.
 - Life Expectancy. Can vary due to use, weather, workmanship, etc. As items get close to the projected end of their useful life, closer monitoring is warranted.
 - Replacement Cost. As items get close to the end of their useful life, you should obtain a current cost from a qualified contractor.
 - Addition or Removal of Components. As time passes, components may be added or deleted from list.
 - Inflation. Adjust your inflation factor as it changes every year.
 - Interest Earned on Invested Reserves. Adjust the interest yield on invested reserves.

Who Performs the Reserve Study? Unless you have a knowledgeable construction cost estimator in your HOA or your Reserve Study is very simple (only a few components), it's prudent to have a professional do the work. Professional Reserve Analyst (PRA) members of the Association of Professional Reserve Analysts hold the highest credential in the reserve study industry. For a list of PRA members, go to www.apra-usa.com

Why Use a Professional Reserve Analyst?

1. Objectivity. An HOA insider will always have a conflict of interest and sometimes wants to minimize costs at the HOA's peril. An independent Professional Reserve Analyst looks objectively at your components, costs and useful lives.
2. Expertise. Professional Reserve Analysts are trained in construction and cost estimating.
3. Connected. Professional Reserve Analysts have connections with professional contractors that help

develop reliable cost data.

Healthy reserves are critical to the well being of every homeowner association. Investing in a comprehensive Reserve Study and following a carefully charted funding plan will reap huge dividends in the coming years. If your HOA hasn't already done so, get the ball rolling today! **APRA**

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Trips & Slips

Tripping and slipping can involve both embarrassment and serious injury. The ubiquitous banana peel slip always gets a chuckle but too often the gravity of the situation can cause real and lasting injury. Then there is the issue of blame. In most of the world, the policy of Always Look Down (ALD) is essential to avoid injury. In the Third World, if you trip or slip, you have no one to blame but yourself. But in the Land O' Plenty of lawyers and insurance, the blame often gets hung on the homeowner association.

HOAs have the duty to maintain trip and slip-free conditions in the common area. These conditions can be triggered by a number of causes:

1. Weather (snow and ice)
2. Landscape (overgrown bushes, moss, tree roots)
3. Poor Construction (lack of handrails,

improper material and design)

4. Mechanical Failures (car oil leaks)
5. Normal wear and tear (raised or sunken concrete slabs, potholes, etc.).

The following conditions create conditions ripe for trip and slip::

1. Raised edges over 3/8 inches. Driveways, patios, sidewalks and parking lots crack and move, sometime up and sometimes down. Tree roots or inadequate compaction are usually the culprits. Raised concrete can often be ground down without having to replace it. Sometimes it requires removal and replacement.
2. Step of unusual height, like 3-4 inches. Normal steps are 6-8 inches tall. These kind of steps benefit from yellow edges which can be easily seen.
3. Walkway slopes that are slippery when wet, icy or mossy. Consider installing non-skid surfaces.
4. Inadequate lighting (too dim, too few fixtures, improper placement). Increase lumen output, add or move fixtures.
5. Overgrown landscaping that conceals or overshadows hazards. Prune bushes and trees to allow light through.
6. Lack of stairway handrails. Install on both sides.
7. Oil spots in the parking areas. Pressure wash or use oil absorbing material to remove.
8. Potholes. Fill them to level.
9. Naturally slick surfaces (like polished marble in entry foyers)
10. Lack of non-skid surfaces where appropriate (stairs, entries, slopes). Add skid resistance runners, carpet or adhesive strips. Replace slick material with skid resistant materials like wood stair treads with concrete.

Regardless of the cause, the HOA should have a budget and plan to deal with slip and trip hazards before someone and his lawyer discover them and the HOA's liability insurance policy. The plan to detect and correct should be consistent and adequate. The program should be even more aggressive in HOAs with senior residents whose injuries are likely to be more serious.

So the next time you hear, "Have a nice trip" or "See you next fall", make sure they refer to holiday travel plans and not a trip or slip. **APRA**

APRA offers the Professional Reserve Analyst (PRA)TM credential to members that qualify by related education, years of experience and client references.

APRA members provide high quality reserve study service throughout the United States and Canada.

APRA Institute offers professional reserve study provider education with its Annual Symposium, Webinar Series and PRAs-Only website resources.

**For contact and membership information:
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Stay Ahead of the Maintenance Curve

Deferring maintenance in a homeowner association has negative and lasting effects. While postponing maintenance may seem to be a money-saving technique, the consequences are usually a much higher cost over time.

Painting is one of the largest elements of routine common area maintenance for many HOAs. Poorly maintained paint will fail prematurely. Touchup should be done annually. Wood trim should be painted every 3-4 years. The complete painting of buildings should be done every 6-8 years on average.

Drainage. Rain gutters are an important component which need twice annual cleaning (more often where there is heavy tree coverage) to help insure proper water run-off. Clogged and overflowing gutters cause premature trim and siding rot.

Light fixtures need to be serviced regularly. Salt air, in particular, can rapidly deteriorate and short-circuit light fixtures.

Concrete sidewalks and slabs need to be inspected annually for cracks and raised areas, as well as degradation of the surface. Raised areas create a trip hazard which can be corrected by grinding or removal and replacement.

Asphalt paving needs to be repaired and seal coated every 3-5 years to properly protect it so it will achieve its maximum useful life of 25-30 years.

Roofs need to be part of both a Spring and Fall maintenance plan. They need to be inspected, repaired and cleaned by a qualified roofing maintenance contractor.

Roof gutters and downspouts should be cleaned at least twice a year, more often in "hotspots". Failure to do this causes backups and overflow that damages paint, siding and landscaping.

Playground equipment should be inspected and maintained to ensure child safety.

Directional signage should be in good repair and easily readable in order to assist emergency response services like police, fire and pizza delivery (joke).

Directories with name and addresses also facilitate emergency response. The directory should be regularly updated for accuracy.

Reserve Study. This is a 30 year plan to manage and fund (usually) large projects. A Reserve Study will help the board to schedule, budget and properly maintain the common elements. It is highly recommended that the study be done and updated annually by experienced professionals like Professional Reserve Analysts (PRA) members of the Association of Professional Analysts. See www.apra-usa.com for a directory PRA members.

Use these hints to help craft your own Preventive Maintenance Plan. Deferring maintenance is a sucker bet that will come back to bite. Stay ahead of the game. [APRA](#)

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Ernie Lahti Retires

After decades of service to the reserve study industry and Association of Professional Reserve Analysts (APRA), Ernie sold his company Applied Reserve Analysis this year to Rob Forney of Las Vegas.

Ernie served on the APRA board of directors for a number of years and provided thoughtful input to help shape national reserve study standards of practice. APRA wants to thank Ernie for his faithful service. [APRA](#)