

**Notes on CARF Worksheet and the 2011 Review**

Overview of Workbook - The CARF Workbook consists of multiple Worksheets that are linked together. There are hundreds of formulas that propagate the primary data throughout the Workbook. A new Worksheet is created for each annual review from the prior year's Worksheet. There are three sections for each annual review Worksheet which are color coded as shown below. All of the "primary data" is in Section 1 and consists of 1) a list of the Capital Assets that all resident/owners must maintain, 2) an estimated cost to upgrade, replace or perform major periodic repairs (routine maintenance or repairs are budgeted in the Operating Budget), 3) the useful life as the number of years between major upgrades/maintenance, and 4) the estimated remaining useful life in years before the costs are likely to be incurred. Some costs are incurred infrequently (replace roofing shingles) and others require yearly outlays (fix broken or sunken concrete).

The estimated costs are reviewed by an independent professional about every five years. But in the annual review, the Finance Committee may change any of the costs, useful lives, or remaining lives based on a contractor's bid for similar expenditures or a better understanding of the condition of the assets or the need for immediate remedial work or deferral of work not yet required.

**Section 1** - List of Assets, with estimated periodic repair, upgrade or replacement cost, and associated useful lives and remaining lives as of a reference date.

**Section 2** - Summary of Rolling Year to Year CARF Balances

**Section 3** - FUNDING PLAN - Proposed Contributions by HOA Residents based on Annual Amortizations / Deprecation

**Section 4** - Fully Funded Amounts compared with actual spending of 2011

**Core goals of any Capital Asset Reserve Fund - discussion with Association Reserves, an independent specialist in Reserve Funds**

- 1 | Equitable distribution among existing and future owners based on annual straight-line depreciation of assets;
- 2 | Adequate funds to cover unexpected events, such as early replacement of hail damaged roofing, so "special assessments" can be minimized
- 3 | Budget stability over a multi-year periods so annual contributions remain relatively consistent and avoid volatile increases or decreases
- 4 | Fiscally responsible, so future costs are rationally anticipated, past owners have fairly contributed to future expenditures & new owners are not unexpectedly saddled with assessments due to underfunding in the years prior to their purchase of a unit.
- 5 | A "Fully Funded" CARF means that, for each asset, if 1/2 of its expected useful life has passed then 50% of the future costs are in the Reserve Fund. But a Reserve Fund that is somewhere between 75% & 90% funded is considered acceptable because of uncertainties in estimates.
- 6 | Future inflation rates are one such uncertain estimate. A 3% average rate is acceptable for all assets. Some costs will inflate less, others such as asphalt / roof shingles (petroleum based), power and water will likely inflate more rapidly.
- 7 | National standards for Reserve Funds state that funding should be provided for 1) all assets that the owner's agreement designate as common property to the HOA to the extent that such assets are not insured or insurable, 2) the cost to fully replace is over \$1,000, 3) the assets have limited useful lives, and 4) the remaining useful lives can be reasonably predicted.

**The Annual CARF Review steps are:**

- 1 | Update expenditures and funds balances for the prior year based on the audited financial reports
- 2 | Review Useful Lives and modify as considered appropriate
- 3 | Review Remaining Useful Lives and modify as considered appropriate
- 4 | Review the periodic cost estimates for upgrade, replacement or major repair, and modify based on available objective evidence when available.
- 5 | Every five years submit the CARF to an audit by an independent professional and modify useful lives and costs as recommended.
- 6 | Review the proposed annual expenditures in the Worksheet and prepare next year's CARF budgeted expenditures. Modify timings or amounts as deemed appropriate because the Worksheets develop estimated timing and amounts; these are not "sacred" and require commonsense review.
- 7 | Establish the amount of monthly dues that will be transferred to the CARF
- 8 | Review the Funded Percentage to ensure that it remains in acceptable ranges for the next five to ten years.

