Definition and Methodology

Full Funding – setting a reserve funding goal to attain and maintain reserves at or near 100% funded, where cash in the reserve fund is equivalent to the deteriorated value of the reserve components.

Threshold Funding – setting an objective chosen by the board other than the 100% (Full funding) level or just staying cash-positive (Baseline funding). This may be a specific Percent Funded target or a cash balance target. Threshold funding is often a value chosen in between Full Funding and Baseline Funding.

Baseline Funding –the objective is to have sufficient reserves on hand to never completely run out of money. This is sometimes described as a "cash-positive" plan. This method is discouraged as it results in less cash in reserves with the result of higher instances of special assessments and/or deferred maintenance.

Statutory Funding – the pursuit of an objective as described or required by local laws or codes. In effect, this method is the same as Threshold Funding with a mandated threshold percent or cash reserve.

Straight Line Methodology – contribution to the reserve fund for each component are calculated separately, and summed together for a total. The reserve funds are essentially divided into separate pools for each component, with no co-mingling.

Cash Flow Methodology: Contributions to the Reserve fund are designed to offset the variable annual expenditures from the reserve fund. The reserve fund is considered one large pool of money, where a steady contribution rate is established to offset all of the scheduled reserve expenses from the fund, no matter what project those expenses are designated for. Due to its greater computational flexibility and its ability to focus on and achieve any of the four funding Objectives, the Cash Flow method if used in this analysis tool. No other option is offered.

Current Replacement Cost: An estimate of a reserve component's cost to replace, repair or restore the component to its original functional condition should the need occur.

Useful Life: The number of years the component is expected to serve its intended purpose if given regular and proper maintenance.

Remaining Life: The expected number of years the component will continue to serve its intended purpose prior to undergoing repair, refurbishing or replacement.

Effective Age: The Useful Life (years) less the Remaining Life (years).

Future Replacement Cost: An estimate of the reserve component's cost to replace, repair or refurbish the component to its original functional condition at a future year taking into account inflation that will increase the cost.

Fully Funded Balance (FFB): Total accrued depreciation. The FFB is an indicator against which the actual (or projected) reserve balance can be compared. The reserve balance that is in direct proportion to the fraction of life "used up" of the current repair or replacement cost. In this workbook, the traditional formula is used and then inflation is applied to more accurately arrive at the Fully Funded Balance for each asset. For each component in each year of the analysis:

$$FFB = \frac{Current\ Cost\ x\ Effective\ Age}{Useful\ Life}\ x\ (1 + inflation\_rate)^{(Y_n - Y_0)}$$

Where Y_n = Future year and Y_0 = Current year

The earned interest on the reserve fund is calculated separately and included as part of the ongoing income; therefore, the interest rate on the reserve fund is not included in the calculation of the FFB.

Percent Funding: The percent funded of the reserve is computed using the following formula. In this workbook, the start of year reserve fund balance is used to compute the % funding. It is commonly held that the HOA should strive to achieve and maintain a % funding of 70% to 100%. If the HOA is small and there are fewer assets, target toward the higher end. If the percent funding exceeds 100%, it is considered to be over-funded.

$$\%\ Funded = \frac{Acutal\ Reserve\ Fund\ Balance}{Computed\ Fully\ Funded\ Balance}$$