

A Note About Reserve Budget Calculations

State law now allows the use of the “cash flow” method for reserve budget funding (see H.R.S. Section 514A-83.6). This note describes how our reserve budget is calculated.

A “cash flow” plan is actually quite simple. (You may want to refer to the “Reserve Budget Cash Flow” chart.) The planned expenditures are projected out into the future; this is done using the item’s lifecycle and replacement cost. If an item has a ten-year lifecycle, a replacement cost of \$10,000, and was last replaced in 1994, then \$10,000 will be expended in 2004, 2014, 2024 and so on into the future. The replacement costs are adjusted for inflation (currently set at 3%). This projection is done for each item, then the total expenditure that will occur in each year is calculated. This forms the “Expenditures” amount. The “Contributions” to reserves is calculated so that the same amount (after adjusting for inflation) is contributed to the reserves each year, thus equalizing the burden of the reserves equally on all owners over the life of the reserve items. The “Reserves” balance is calculated by carrying forward the ending reserve balance from the previous year, subtracting the “Expenditures” for that year, adjusting for interest earned (currently set at 5%), and then adding the “Contributions” for that year. Finally, the “Contributions” amount is adjusted so that the “Reserves” balance never goes below zero (meeting the 100% minimum cash flow funding requirement).

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