

Straight-Line Depreciation Analysis and Percent Funded Estimate

A *Straight-Line Depreciation Analysis and Percent Funded Report* follows this page. This type of analysis is occasionally used by associations that track reserve expenses individually.

Straight-Line Analysis is often referred to as a *component method* because funding for each reserve component is determined individually. This differs from the *Cash Flow Analysis* method which determines funding for the aggregate group of reserve component expenses during each year in a 30-year projection and makes sure there are enough reserves in each of those years for that group of expenses.

The rightmost column in the analysis on the next page represents the amount of funds necessary to *defray the cost of depreciation* for all reserve components in the forthcoming year. This amount alone is not always the proper annual reserve funding amount. If there is “unfunded depreciation liability-to-date” (e.g. not enough funds have been saved in past years), the funding amount will need to be more than just the annual depreciation total.

The reserve fund status, expressed in terms of the “*Percent Funded Estimate*,” is a required disclosure and is calculated from the Straight-Line Analysis as follows:

$$\text{Percent Funded Estimate} = \frac{\text{Reserve Account Balance}}{\text{Cumulative-to-date depreciation liability}}$$

The percent funded estimate is essentially a measure of the *strength of reserves relative to cumulative depreciation of assets* such as roofing, paving, etc.

If the association is not 100% funded for depreciation-to-date (fully funded), the report shows the *reserve deficit*, known as the “*Unfunded Depreciation Liability*.” This is the amount the association would need to add to reserves in order to be 100% funded.

For more description of the straight-line analysis method used in this report, refer to the “*Reserve Analysis Methodology*” section in this study.