



**West Point Loma Owners Association, Inc.**  
**Level II: Update with On-Site Inspection**  
**December 31, 2022**

**Inflation and Interest Earned on Reserves:**

As an industry standard, provision has been made in the funding projections for inflation, computed at three percent (3%), and an assumed 1% net interest on the reserve balance has been added to the reserve funds. As costs increase in the future, the annual reserve reports should be revised accordingly.

**Reserve Calculations:**

Based on estimated current replacement costs of \$520,508 and estimated normal and remaining useful lives as determined by the independent consultant, the annual funding requirement is calculated to be \$35,033.

The accumulated funding requirement is calculated to be \$343,287.

As of December 31, 2022, the Association may have \$293,642 in accounts designated as reserve funds.

Therefore, a deficit of \$49,645 has been calculated, with a funding percentage of 85.5%. A portion of the annual reserve requirement may be provided for in the operating budget.

**Industry Standard Measure of Funding Strength:**

**0% - 30% = WEAK** At this level of funding, Special Assessments and deferred maintenance are likely.

**31% - 70% = FAIR** At this level of funding Special Assessment and deferred maintenance are less likely, but could still pose a concern. Efforts should be taken to increase to a healthier level of funding.

**>70% = STRONG** At this level of funding the Association should be well covered, with hopefully no need for deferred maintenance or Special Assessments.

**Funding Calculations:**

There are a variety of methods by which the Association can approach the desired level of funding. The Board is responsible for determining the optimum funding program. We have calculated three options:

**Option 1: Annual Requirement Funding:** This option assumes that the Association will maintain the annual funding requirement as calculated on page 5, without regard to any funding deficiency.

Currently the annual requirement allocation is \$36,084 or \$125 per unit per month (based on annual funding requirement, plus 3% inflation increase) beginning next fiscal year.

**Strong level of funding in FY 2023.**

**Future overfunding is likely.**

**Option 2: Current Funding:** The current budgeted funding level is projected over the 30-year period, including 3% inflation annual increase, as compared to option 1 and 3.

Currently, with the 3% increase, \$18,540 or \$64 per unit per month will be allocated to reserves next fiscal year.

**Reserves are currently funded at the Strong level of funding.**

**However, reserves could fall to the Fair level of funding by FY 2025 and deficits could occur beginning FY 2032.**

**Option 3: Recommended Funding:** This option is intended to calculate the amount of funding that would be the most sufficient for the Association over the next 30 years. The Current Budgeted Funding, and the Annual Requirement Funding are both taken into consideration while creating a Recommended Funding that is hopefully achievable by the Association. The 3% inflation annual increase is assumed, unless otherwise noted.

Recommended funding is, \$20,700 or \$72 per unit per month.

**To avoid deficits which could occur beginning FY 2032, the regular reserve allocation could be increased 15% annually in FY's 2023 through 2029.**

**To avoid possible future overfunding, the regular reserve allocation could be decreased to equal \$45,000 annually in FY 2037.**

**Reserves could maintain the Strong level of funding beginning FY 2029.**

