Simple Illustration of the Difference:

Cash Flow Calculations

versus

Component Method Calculation

CASH FLOW v COMPONENT
(Pooling vs. Full Funding)

- **CASH FLOW** (“Pooling”) METHOD
  - Treats Reserves as an aggregate “pool” of funds. It makes sure that adequate funding is available as needed in each year.

- **COMPONENT** (“Full Funding”) METHOD
  - Treats each Reserve Item as a separate “line item” budget. Money cannot be borrowed from one budget to fund another.

CASH FLOW vs. COMPONENT

Illustration of the Different Mathematical Models

- Four Buildings
- Painted 1 per year, repeat every 4 years
- Cost of $12,000 per building
- (Assume $Zero Starting Balance)
- (Assume $Zero Threshold)

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12					
Painting Building Two	$12					
Painting Building Three	$12					
Painting Building Four	$12					
Total Cost	$48					

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3				3
Painting Building Two	$12	3				3
Painting Building Three	$12	3				3
Painting Building Four	$12	3				3
Total Cost	$48	$12				$12

Each Year is funded at the necessary level, in this case $12k per year.

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3	3			6
Painting Building Two	$12	3	3			6
Painting Building Three	$12	3	3			6
Painting Building Four	$12	3	3			6
Total Cost	$48	12	$12			$24

Each Year is funded at the necessary level, in this case $12k per year.

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3	3	3		9
Painting Building Two	$12	3	3	3		9
Painting Building Three	$12	3	3	3		9
Painting Building Four	$12	3	3	3		9
Total Cost	$48	12	12	$12		$36

Each Year is funded at the necessary level, in this case $12k per year.

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3	3	3	3	12
Painting Building Two	$12	3	3	3	3	12
Painting Building Three	$12	3	3	3	3	12
Painting Building Four	$12	3	3	3	3	12
Total Cost	$48	12	12	12	$12	$48

Each Year is funded at the necessary level, in this case $12k per year.

Cash Flow Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3	3	3	3	12
Painting Building Two	$12	3	3	3	3	12
Painting Building Three	$12	3	3	3	3	12
Painting Building Four	$12	3	3	3	3	12
Total Cost	$48	12	12	12	$12	**$48**

As shown above, $12k was funded as was needed in each year. $48k was needed over 4 years, and $48k was funded.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12					
Painting Building Two	$12					
Painting Building Three	$12					
Painting Building Four	$12					
Total Cost	$48					

Each Component is required to be funded individually. Money can't be borrowed from one to pay component for another component.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	12				$12
Painting Building Two	$12	6				$6
Painting Building Three	$12	4				$4
Painting Building Four	$12	3				$3
Total Cost	$48	$25				**$25**

Each Component is required to be funded individually. Money can't be borrowed from one component to pay for another component.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	12	3			$15
Painting Building Two	$12	6	6			$12
Painting Building Three	$12	4	4			$8
Painting Building Four	$12	3	3			$3
Total Cost	$48	$25	$16			**$38**

Each Component is required to be funded individually. Money can't be borrowed from one component to pay for another component.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	12	3	3		$18
Painting Building Two	$12	6	6	3		$15
Painting Building Three	$12	4	4	4		$12
Painting Building Four	$12	3	3	3		$9
Total Cost	$48	$25	$16	$13		**$54**

Each Component is required to be funded individually. Money can't be borrowed from one component to pay for another component.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	12	3	3	3	21
Painting Building Two	$12	6	6	3	3	18
Painting Building Three	$12	4	4	4	3	15
Painting Building Four	$12	3	3	3	3	12
Total Cost	$48	$25	$16	$13	$12	$66

Each Component is required to be funded individually. Money can't be borrowed from one component to pay for another component.

Component Method Calculations

	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	12	3	3	3	$21
Painting Building Two	$12	6	6	3	3	$18
Painting Building Three	$12	4	4	4	3	$15
Painting Building Four	$12	3	3	3	3	$12
Total Cost	$48	$25	$16	$13	$12	**$66**

As seen above, $48k in Reserve funding was needed. However, $66k was required to “Fully fund” the Reserves using the Component Method.

Cash Flow Calculations

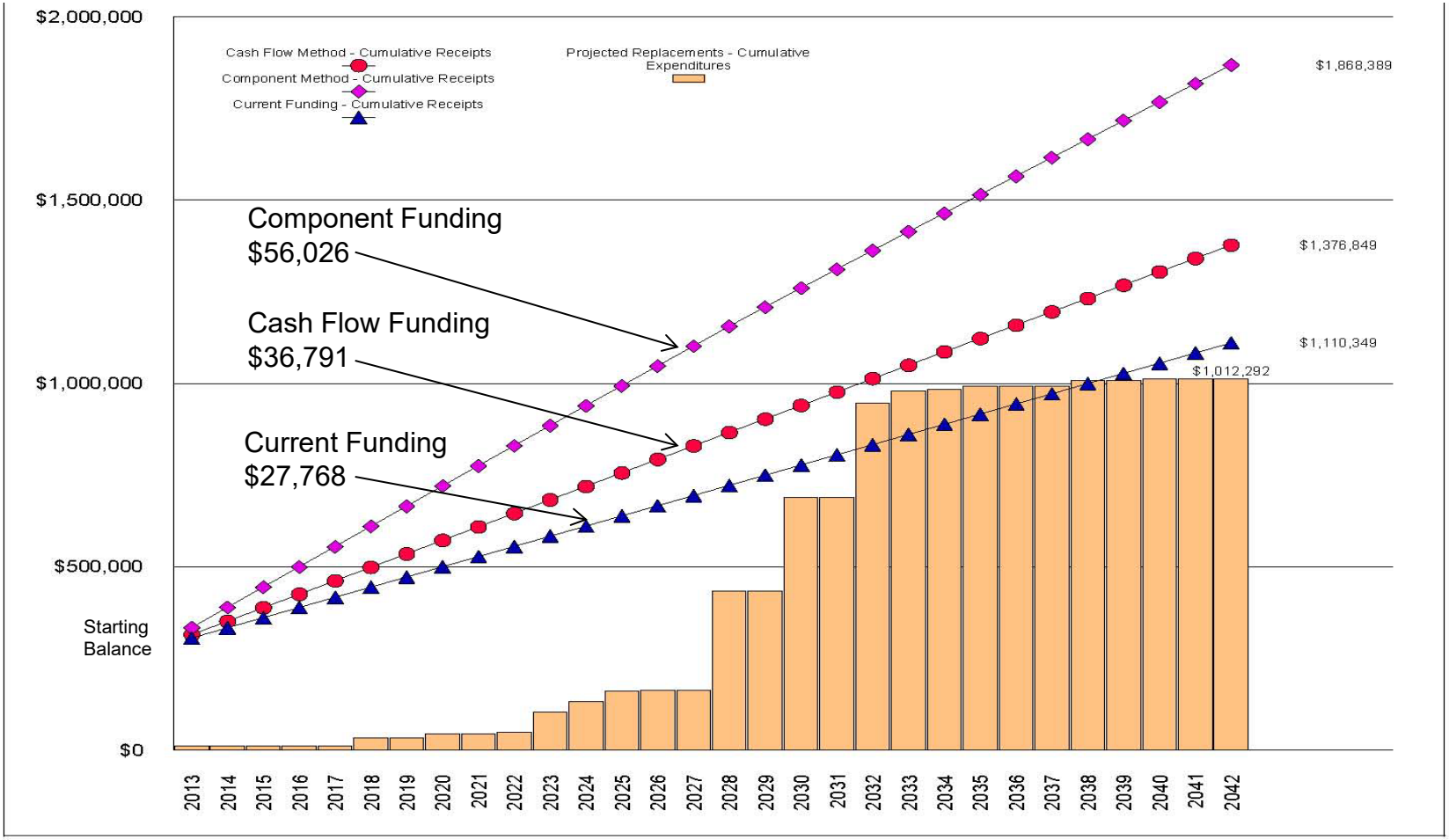
	YEAR	1st	2nd	3rd	4th	Total
COMPONENT	Cost X $1000	**Annual Contributions to Reserves**				
Painting Building One	$12	3	3	3	3	12
Painting Building Two	$12	3	3	3	3	12
Painting Building Three	$12	3	3	3	3	12
Painting Building Four	$12	3	3	3	3	12
Total Cost	$48	12	12	12	12	**$48**

Comparison:

- Cash Flow Recommendation: $48K
- Component Recommendation: $66K
- Component Method requires 38% more funding than Cash Flow.
- Cash Flow would be 72% of “Full Funding” if using Component Method.

Actual Maryland Community

2013 Reserve Funding



- Cash Flow Funding is 32.5% increase over Current Funding.
- Component Funding is ~200% of Current Funding!
- Component Funding is ~50% more than Cash Flow Funding.

Note: MillerDodson ceased using or showing the Component Method in 2014.