

The Lakes

Property Owners Association, Inc.

October 17, 2023 • Myrtle Beach, SC

FULL RESERVE STUDY





1. RESERVE STUDY EXECUTIVE SUMMARY

Client: The Lakes Property Owners Association, Inc. (The Lakes)

Location: Myrtle Beach, South Carolina

Reference: 230095

Property Basics: The Lakes Property Owners Association, Inc. is a homeowners association which is responsible for the common elements shared by 801 single family homes. The community began construction in 1988.

Reserve Components Identified: 17 Reserve Components.

Inspection Date: October 17, 2023.

Funding Goal: The Funding Goal of this Reserve Study is to maintain reserves above an adequate, not excessive threshold during one or more years of significant expenditures. Our recommended Funding Plan recognizes these threshold funding years in 2035 due to the sediment removal of the ponds and in 2049 due to the repaving of the streets. In addition, the Reserve Funding Plan recommends 2053 year end accumulated reserves of approximately \$1,911,200. We judge this amount of accumulated reserves in 2053 necessary to fund the continued replacement of the asphalt and concrete streets after 2053. These future needs, although beyond the limit of the Cash Flow Analysis of this Reserve Study, are reflected in the amount of accumulated 2053 year end reserves.

Methodology: We use the Cash Flow Method to compute the Reserve Funding Plan. This method offsets future variable Reserve Expenditures with existing and future stable levels of reserve funding. Our application of this method also considers:

- Current and future local costs of replacement
- 2.0% anticipated annual rate of return on invested reserves
- 3.5% future Inflation Rate for estimating Future Replacement Costs

Sources for Local Costs of Replacement: Our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated.

Unaudited Cash Status of Reserve Fund:

- \$413,593 as of July 31, 2023
- 2023 budgeted Reserve Contributions of \$20,000 and 2024 budgeted Reserve Contributions of \$37,354
- A potential deficit in reserves might occur by 2029 based upon continuation of the most recent annual reserve contribution of \$37,354 and the identified Reserve Expenditures.

Project Prioritization: We note anticipated Reserve Expenditures for the next 30 years in the **Reserve Expenditures** tables and include a **Five-Year Outlook** table following the **Reserve Funding Plan** in Section 3. We recommend the Association prioritize areas of asphalt streets with deterioration and cracks with patch repairs in the next five years based on the conditions identified.



Recommended Reserve Funding: We recommend the following in order to achieve a stable and equitable Cash Flow Methodology Funding Plan:

- Phased increases of \$42,500 from 2025 through 2029
- Inflationary increases from 2030 through 2035
- Stable contributions of \$307,200 from 2036 through 2039
- Inflationary increases thereafter through 2053, the limit of this study's Cash Flow Analysis
- Initial recommended adjustment in Reserve Contributions of \$42,546 represents an average monthly increase of \$4.43 per homeowner and about a eleven percent (11.4%) adjustment in the 2024 total Operating Budget of \$374,543.
- These recommended Reserve Contributions ensure that each owner funds their use of the Association maintained elements annually. The actual Reserve Contributions approved by the Board may vary based on factors external to the Reserve Study such as the financial impact on unit owners, desire to utilize funding mechanisms other than reserves and the market value of the units. We include stepped or phased annual increases in the Reserve Contribution based on the current financial conditions of the Association, significant recommended Reserve Contributions and the critical Reserve Balances. Any phase in the required Reserve Contribution increase defers the cost burden to future owners. We therefore limit the number of phased increases to limit the deferred cost burden to future owners. We opine this funding method adheres to APRA Standards of Practice which state in part "... any Funding Plan shall meet the Following Funding Principles: Sufficient funds when required, stable contribution rate over the years, evenly distributed contributions over the years, and fiscally responsible."

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Recommended Reserve Funding Table and Graph

Year	Reserve Contributions (\$)	Reserve Balances (\$)	Year	Reserve Contributions (\$)	Reserve Balances (\$)	Year	Reserve Contributions (\$)	Reserve Balances (\$)
2024	37,354 (Budgeted)	429,935	2034	296,800	676,245	2044	364,800	616,218
2025	79,900	503,004	2035	307,200	130,562	2045	377,600	322,412
2026	122,400	603,093	2036	307,200	443,445	2046	390,800	690,145
2027	164,900	772,432	2037	307,200	762,586	2047	404,500	939,530
2028	207,400	951,592	2038	307,200	1,054,352	2048	418,700	1,290,148
2029	249,900	632,610	2039	307,200	315,467	2049	433,400	244,000
2030	258,600	496,083	2040	318,000	615,767	2050	448,600	663,612
2031	267,700	723,183	2041	329,100	909,820	2051	464,300	1,079,668
2032	277,100	1,017,518	2042	340,600	1,110,859	2052	480,600	1,381,242
2033	286,800	1,327,536	2043	352,500	1,489,101	2053	497,400	1,911,241

