

**Dutch Hollow Lake Property Owners' Association
2017 Treasurer's Report
Annual Owner's Meeting
April 28, 2018**

Financial Results (2017 vs. 2016)

Revenues (attachment 1, page 9)

Total revenues **down \$3,443**

- Assessments down \$5,978
 - In 2017 we collected **16 fewer assessments** than in 2016. A total of 1,041 assessments were received in 2017 compared to 1,057 assessments in 2016 (there are a total of 1,163 lots). The 2017 budget assumed we would collect 1,048 assessments for the year.

For perspective, I have detailed the number of assessments collected for the last six years:

<u>Year</u>	<u>Number of Assessments Collected</u>	<u>Percent of Assessments Collected</u>
2017	1,041	89.5%
2016	1,057	90.9%
2015	1,032	88.7%
2014	1,052	90.5%
2013	1,047	90.0%
2012	1,048	90.1%

Historically, we have averaged 90% of the lots paying the assessment. In two of the last three years we have dropped below 90%. Assessments make up more than 75% of our revenue and it is important that everyone pays their assessment.

- Seasonal Fees down \$1,207. The high water caused many members not to make use of several seasonal amenities:
 - Dock fees down \$708
 - Pool passes down \$940
 - Tennis passes up \$440 (pickle ball was a success)
- Beach House Rental up \$2,829. We were able to rent the beach house for several off-season weekends. Pam has done a good job increasing the use of the beach house.
- Daily Fees down \$3,332. All of this decrease was due to lower use of the campground by our property owners.

- Sales up \$4,306. The majority of the increase was due to a large increase in merchandise sales:
 - Merchandise sales up \$4,722
 - Dutch Treat sales down \$405
- Permanent Camping Fees up \$1,800. Last year all 17 of the permanent camping sites were rented.
- Storage Fees up \$1,464. A few new items account for the majority of the increase:
 - Camper storage up \$488 - In 2018 we allowed the permanent campers the option of keeping their campers at the campground during the winter for an additional fee.
 - Kayak Storage up \$400 - In 2018 we offered members the ability to store their kayaks inside the shed.
 - Summer storage up \$220 - Due to the high water we saw a small increase in storage fees during the summer.
- Advertising Income up \$1,025. Pam has done a great job finding additional advertisers for the Dutchman and E-News letter
- Interest & Dividends down \$5,372. The majority of the decrease is due to receiving less co-op dividends in 2017 compared to 2016.
- Public Fees up \$1,224. All of this increase was due to higher use of the campground by the public.
- None of the other revenue items changed significantly.

Expenses (attachment 2, page 10)

Total expenses up \$306

- Payroll Expense down \$11,541. The majority of this decrease is due to the payroll expense being unusually high in 2016 related to hiring a new general manager in 2016. The main reasons for the decrease:
 - \$12,000 decrease – having both Pam and Joan work for the month of April 2016, retirement bonus paid to Joan, and the payout of Joan’s PTO balance.
 - \$3,864 decrease – the unemployment rate decreased from 12% in 2016 down to 7.9% in 2017.
 - \$5,000 – increase in pay for our staff (represents a 2.1% pay increase)
- Utilities down \$3,276. Rain levels in 2017 were higher than normal and we did not run the pumps.
- Insurance costs up \$1,287. The main drivers of this increase
 - Workers Compensation Insurance up \$624 - This is the adjustment to the premiums after a review of actual wages paid in 2015 & 2016.
 - Officer & Directors Insurance - Increase of \$300 in the premium for 2017.
- Repairs & Maintenance down \$2,538. Repair costs in 2015 & 2016 were higher than normal; these costs returned to normal levels in 2017.

- Service Fees down \$2,028. Two main reasons for the decrease:
 - \$1,200 decrease – these fees were higher than usual in 2016 (due to several small items) and returned to normal levels in 2017.
 - \$900 decrease – reduction in garbage disposal fees
- Admin/Board Expenses down \$2,602. The majority of this decrease is due one-time expenses in 2016 that did not repeat in 2017:
 - \$1,800 – accounting classes for Pam
 - \$500 – additional mailing for lake management plan
 - \$400 – new entrance sign
- Supplies/Small Tools up \$1,594. The main drivers of the increase:
 - \$500 – replaced several tools
 - \$507 – new checks for the Association (Royal Bank)
 - \$318 – purchase of ink that will be used in 2018
- Sales Tax & Licenses up \$1,478. The main drivers of the increase:
 - \$500 – increase in sales tax mostly due to increased sales of merchandise
 - \$440 – increase in the cost of the required licenses
 - \$218 – expense for 2018 that was coded incorrectly
- Cost of Sales up \$5,807. The majority of this increase was a \$5,233 increase in the cost of merchandise for sale (including \$607 of merchandise that was sold in 2016, but not paid for until 2017).
- Professional down \$15,656. The decrease was due to three items:
 - \$5,119 decrease – we had very few legal issues in 2017 which resulted in less fees being paid
 - \$7,983 decrease – due to collecting the legal fees associated with past due assessments (we apply those collections against the current year expense)
 - \$2,463 decrease – due to the less money being spent in 2017 on the real estate tax issue
- Miscellaneous Expense down \$2,447. The decrease is due to some one-time expenses paid in 2016 that did not repeat in 2017:
 - \$1,200 in advertising costs for the general manager position
 - \$700 in forestry expenses
 - \$400 in other costs association with the change in general managers
- Small Projects and Repairs Fund up \$5,429. In 2017 the board determined that we needed to complete more projects than in a normal year (we normally spend \$12,000 per year).
- Lake Weed Control up \$24,757. In 2017 we completed a whole lake chemical weed treatment and updated our lake management plan.
- Net Income down \$3,429.
- None of the other expense items changed significantly.

Project Funds

In 2010 we increased the assessment and created several different funds to maintain and improve the association's facilities. We now have four different funds to complete this work. In 2017, a total of \$45,820 (11%) of assessments collected was allocated to these funds for the maintenance and improvements of our facilities.

Funds

Small Projects and Repairs Fund is for small projects or repairs that are non-reoccurring in nature that cost less than \$5,000. We allocated \$12,000 of the assessments collected to this fund.

Capital Project Fund is for repairs or purchases that cost between \$5,000-\$20,000. We allocated \$10,410 of the assessments collected to fund these projects.

Major Capital Project Fund is for repairs, improvements or purchases of fixed assets over \$20,000. We allocated \$10,410 of the assessments collected to fund these projects. In addition, any prior year assessments collected are put into this fund.

Lake Weed Control Fund is for costs associated with maintaining the quality of the lake. This includes our lake management plan, water testing and chemical treatments. We allocated \$13,000 of the assessments collected to fund these items.

Small Projects & Repairs Completed in 2017 (attachment 3, pages 11 & 12)

These sheets detail all of the projects that were completed using money out of the Small Projects & Repair Fund. We budget \$12,000 annually for these project, but we had a large number of projects in 2017 and budgeted an additional \$12,000 for these projects. In addition, we spent \$2,500 out of the fireworks & entertainment fund to purchase a new swim raft for \$2,500. We ended up spending a total of \$20,063 out of this fund, and still have \$3,050 in approved projects that will be completed in 2018.

Sources & Uses of Cash (attachment 4, pages 13-16)

This attachment shows the change in our cash balance during the last year for the four cash accounts (as you will see later this is not the cash we actually have to spend).

Operations Cash (page 13) – This is the account used to run the operations of the association (including the small projects & repair fund described above). We had net income of \$34,550 and transferred \$20,000 to the other funds and ended the year with \$60,014 more than we started the year.

Capital Project Fund (page 14) – We received \$10,430 from assessments collected and spent \$23,397 on capital projects, ending the year with \$4,371 less than we started the year.

Major Capital Project Fund (page 15) –We received \$10,430 from current year assessments and \$5,926 in prior year assessments that were collected in 2017. In addition, we transferred in \$20,000 from the operating fund. We spent \$15,000 on capital projects. The balance of this fund increased \$21,606 during the year.

Lake Weed Control Fund (page 16) – We created this fund in 2017. We budgeted \$13,000 from assessments collected and carried forward the remaining \$8,070 from 2016. In addition, we received \$1,300 donation from the Dutch Hollow Races. Lastly, we transferred \$15,000 from the major capital project fund. We spent \$30,987 on lake projects, ending the year with \$6,383 more than we started the year.

The 2018 Budget (attachment 5, pages 17 & 18)

Attachment 5 shows the 2018 budget compared to the 2017 actual results.

The assessment for 2018 was increased \$15 to \$405. The board directed that \$10 of the increase be designated for major capital project fund and \$5 of the increase goes to the operations of the association.

Revenues (page 17)

Total revenues are up \$7,266

- Assessments up \$15,090. All of this increase is due to the increase in the assessment. We budgeted for 1,040 assessments to be collected in 2018 compared to the 1,041 that was collected in 2017.
- Beach House Rental down \$2,734. We assumed we would not have the off-season rentals in 2018 that occurred in 2017.
- Daily Fees up \$1,705. We assumed pool pass and dock rental would return to their normal level in 2018.
- Sales down \$2,024. We assumed that merchandise sales would slow in 2018, as this would be the second year with the new logo.
- Permanent Camping Fees down \$1,800. When the budget was prepared there were still some permanent camping sites that had not been reserved.
- Storage Fees down \$1,415. We assume that storage revenue would return to normal levels in 2018.
- None of the other revenue items changed significantly.

Expenses (page 18)

Total expenses are up \$24,683

- Payroll up \$7,673. The association staff was given a 2.2% pay increase in 2018. We felt an increase was warranted as we don't offer our employees any benefits (other than a small retirement contribution). However, I believe that I have budgeted payroll taxes a little high (\$1,800). So, the increase is closer to \$5,875.
- Utilities up \$36,314. The budget reflects the costs of pumping for a very dry year. Hopefully, it rains next summer and fall.

- Cost of Sales down \$3,087. I assumed sales of merchandise would be lower next year, meaning the cost of sales will be lower as well. In addition, the actual cost of food sold at the Dutch Treat in 2017 ended higher than expected. So, the amount budgeted for this line item might be too low.
- Professional Fess up \$9,405. In 2017 the following items resulted in the professional fees being lower than normal:
 - We collected a large amount of legal fees associated with the collection of prior year assessments (\$7,893). We net those fees collected against the current year professional fees.
 - We had very few legal expenses in 2017.
The budget assumes a normal year in legal fees.
- Small Project & Repair Fund down 8,062. In 2017 we completed more projects than usual. In 2018 we will return to the normal spending level for these projects (\$12,000).
- Lake Weed Control down \$16,687. In 2017 we updated our lake management plan and chemically treated the lake for weeds. We will not chemically treat the lake in 2018. Each year we budget \$13,000 for weed treatment, any money not spend will be carried forward for future weed treatment expenses.
- Major Capital Project Fund up \$10,390. In 2018 an additional \$10 of each assessment will be designated for this fund.
- None of the other expense items changed significantly.

Projects (attachment 6, pages 19-23)

Attachment 6 details the 2018 projects that have been approved for each of the Funds. The projects in red have been approved by the board.

Small Projects & Repair Fund (pages 19 & 20) – A total of \$9,750 of projects has been approved by the board. The total budget for this fund is \$12,000. The board is not planning to approve any other non-emergency projects this year.

Capital Project Fund (page 21) – There are a total of \$16,600 of projects approved for 2018. However, note that there is a total of \$87,400 in potential projects.

Major Capital Project Fund (page 22) – There are a total of \$20,250 of projects approved for 2018. However, note that there is a total of \$255,000 in potential unfunded projects.

Lake Weed Control Fund (page 23) – There are a total of \$6,250 of projects approved for 2018. Any monies not spent in a given year will be left in the fund to fund future expenses.

Cash Available for Operations (attachment 7, pages 24 - 27)

Attachment 7 shows the amount of cash available in each fund for us to spend.

Operations Cash (page 24) – As of December 31, 2017 we had \$337,004 in the account. However, after removing cash dedicated to non-operating uses (\$26,042), the 2018 assessments & deposits collected (\$205,170) and our payables (\$19,026) we have \$95,205 in cash to run the Association. We usually like to keep \$20,000 - \$25,000 in this account for emergencies. So, that allowed us to transfer \$75,000 to the major capital project fund, leaving \$20,205 in this fund as an emergency reserve.

Capital Project Fund (page 25) – We ended the year with \$50,095 in available cash. Again, we have approved spending \$17,005 in projects. We have potential projects totaling almost \$87,000 and only \$24,701 available for these projects.

Major Capital Project Fund (page 26) - We ended the year with \$129,848 in available cash. The board agreed to move an additional \$75,000 to this account from the operating account. In previous years the board has established reserves for large future expenses. This year, the board allocated \$10,000 in reserves for future pump repairs and future dam repairs. This brings the reserves for both of these items up to \$40,000. In addition, the board set money aside to purchase a new lawn tractor and new truck. That leaves \$92,653 in this fund, but we still have \$255,000 in potential unfunded projects to be completed, but only \$92,653 in available cash.

Lake Weed Control Fund (page 27) – We ended the year with \$6,383 in available cash. We approved spending \$6,250 projects for 2018 only leaving \$133 in this fund. Keep in mind, we budgeted \$13,000 in the 2018 budget for this expense.

Takeaway Comments

Good News

1. The Association is in Good financial shape
 - We have been able to keep up with the normal maintenance and repair items that are required each year.
 - We have completed several large projects in the last 3 years and still have been able to set money aside for large future maintenance projects:
 - Spent \$155,000 on capital project
 - Spent \$60,000 to control the weeds in the lake
 - Set aside \$95,000 for future maintenance projects
 - We still have over \$125,000 in cash available for future projects
2. Assessments paid by members remain close to 90%.
3. The board remains focused on the long term future of the association, understanding that many of our facilities were built in the 1970's.

Concerns

1. Almost all of our capital spending has been on the repair / replacement of our existing facilities. Little money has been available to spend on enhancing or expanding our facilities and amenities.
2. The pool is one of the most used amenities we have at the association. However, the pool and the equipment that runs the pool are from the 1970's. It continues to age and will need to be replaced at some point. This project is not included in any of the numbers we have discussed today and rough estimates to replace the pool and associated equipment is over \$230,000. The pool is not in imminent danger of needing to be replaced, but we know it will need to be replaced.
3. We need to develop a plan to raise money to help fund a project of this size. This issue will be the focus of the finance committee in 2018. We will need to be creative as our covenants limit the amount we can charge for the assessment to the current value of \$100 in 1977 (currently \$414), and getting a special assessment passed is very difficult. We will need everyone's help and support in this process.

I want to end by stressing that your Association is in good financial shape. The board is focused on the long term future of the Association and wants to make sure we have a plan in place to address future capital costs.

Questions

Please feel free to ask questions during the meeting or you can contact me before or after the meeting.