



## **Treasurer's Report December 31, 2022**

Attached please find the Saddle Creek Association financial statements for the year ended December 31, 2022 and the Association's 2023 budget.

### 2022 Financial Results

#### Budget vs. Actual Net Revenues vs. Expenditures

The 2022 budget was forecast to produce excess revenues over expenditures of \$23,570, with that amount to then be transferred from our Association Operating Fund to the Association Reserve Fund. 2022 resulted in an excess of expenditures over revenues of \$7,068. Funds in our Operating Fund were used to fund the operating shortfall and the 2022 contributions to our Reserve Fund. Unanticipated repair costs, the impacts of a high inflationary environment and the pulling forward of future unbudgeted expenditures to utilize current excess funds in our Operating Fund were the primary drivers behind this shortfall.

#### Revenues

Actual revenues from annual co-owner dues assessments totaled \$198,424 vs. budgeted dues of \$201,600. The shortfall was driven by past due co-owner dues assessments. In December 2022, the Association initiated stronger actions to bring all co-owner accounts to a current basis and ensure quarterly dues payments are submitted by the specified due dates.

The Association realized negligible income from investments in 2022. We are restricted per our by-laws to investing in only insured CDs and US Treasury obligations, both of which offered very low interest rates for most of 2022. In December 2022, we opened an account with Fidelity Investments to purchase FDIC-insured brokered CDs and US Treasury securities. CDs totaling \$45,000 were purchased with yields ranging between 4.5 - 4.75%.

#### Expenditures

Common area expenses comprised approximately 60% of all Association expenditures in 2022. Per our original Master Deed, Saddle Creek was required by Lyon Township to devote a significant area to common space within the development. This comes with a high cost of maintenance, but also contributes to a strong desire to live in the development and provides enhanced home values. 2022 common area expenditures totaled \$121,756 vs. 2022 budgeted expenditures of \$100,000. Higher than anticipated expenses were incurred to repair/maintain our irrigation systems (\$8,344) and the retention ponds located behind the homes on Bluegrass Court (\$9,429). Higher than budgeted expenditures were made on seasonal plantings, trees/shrubs and an extensive replacement of mulch (\$9,503). Other 2022 expenditures did not differ materially from budgeted totals.

A decision was made to use excess funds in our Operating fund to make unbudgeted community improvements purchases. A picnic table was purchased for the playground in the northwest area

of the community (\$1,214). \$5,696 was spent to complete the lighting installation at the Shaya Drive entrance and the Pontiac Trail boardwalk.

As noted in the attached financial statements, all other actual expenditures did not vary materially from budgeted amounts.

### Reserve Funds

The Association had a formal reserve study performed in 2020 by Michigan Reserve Associates LLC for the purpose of budgeting and planning for the long-term major repair and replacement needs of the Association. Based on this study, \$290,200 was the suggested amount to held in the Association reserve accounts at December 31, 2022 to fund these future needs. A total of \$26,900 was transferred in 2022 from our Operating Fund to the Reserve Fund to meet this anticipated amount. At December 31, 2022 funds in our Reserve Fund totaled \$290,225.

At the start of 2022, the Association maintained two separate bank accounts for the General Reserve Fund and the Mailbox Reserve Fund. The Board determined there was no need to maintain a separate Mailbox Reserve Fund. In November, 2022 the Mailbox Reserve Fund bank account was closed and \$57,373 was transferred into the General Reserve Fund bank account.

### Summary

Despite the impacts of high inflation and increased costs, the Association remains in a solid financial position with approximately \$362,000 in our bank and investment accounts. We will continue to manage our operations and finances in a conservative manner to ensure we have the funds needed to meet our ongoing operational needs and ensure our longer-term needs remain fully funded via our reserve funds.

### 2023 Budget

The Board of Directors has approved a 2023 budget that reflects anticipated expenditures that exceed projected revenues by approximately \$5,800. The Board elected not to increase our current \$800 annual dues assessment, being sensitive to the current inflationary pressures we are all dealing with. Instead, the decision was made to utilize existing funds within our Operating Fund to cover this shortfall, as well as the funding of our 2023 Reserve Fund needs. We currently have approximately \$71,600 in our operating bank account. We feel this amount is too high and should be brought down to a level to cover 3-4 months of forward-looking operational expenses.

### Revenues

Revenues from 2023 dues assessments are budgeted at \$201,600, reflecting 252 homes x \$800 per home. Saddle Creek is now fully developed at the planned 252 home level.

We will continue to move significant additional funds from low earning bank savings accounts to our investment account to purchase brokered CDs and US Treasury obligations. At a minimum, we hope to realize \$4,000 in interest income from these investments in 2023. Any investment income earned is deemed to be “non-exempt function income” for US tax purposes and will be

subject to a 30% Federal income tax payment. These taxes will be paid in 2024 on 2023 income and are thus not reflected in our 2023 cash basis budget.

#### Common Area Expenditures

Common area expenditures are budgeted at \$115,000 which reflects an increase of 15% over the 2022 budget. Higher prices will be requested by all of our key service providers – lawn services, pool service, snow removal in 2023. A major mulch replacement was made in 2022 and this should help keep costs for trees, shrubs and seasonal plantings down for 2023.

#### Community Improvements

A primary area of focus will be cleaning the rust off of the white fencing at the North entrance to Saddle Creek and the fencing facing Pontiac Trail. We are also looking to replace the planter box at the intersection opposite the cabana area as it is starting to fall apart. Additional work will be performed on the North/South entrances, based on remaining funds availability.

#### Professional Services

We have included \$5,000 in the budget to engage an attorney experienced in HOA law to assist us with rewriting our by-laws. This has been an ongoing discussion item at every Annual Meeting and the time has come to finally address this issue.

The property management fee that we pay to Briden Management will increase from \$6,000 in 2022 to \$6,600 in 2023. This is the first fee increase for Briden Management since becoming our property management company in 2017.

#### Other Expenses

At the September Annual Meeting, we discussed the need to increase the liability portion of our current HOA insurance policy. The current level is \$1 million per occurrence/\$2 million annual aggregate. We have asked our insurance provider for an increase to \$3 million/\$6 million. The request is currently undergoing underwriting review. The additional cost of this increase would be about \$700 per year.

We have estimated an increase in trash services of approximately 10% for 2023. Our contract renews mid-year and we will not know the exact increase for some time yet.

#### Reserve Funds

Per the reserve study, the suggested level for our reserve funds as of December 31, 2023 is \$311,800. Based on our December 31, 2022 reserve fund balance of \$290,225, a contribution of approximately \$21,600 will need to be made in 2023. \$4,000 of this will come from our 2023 investment income and \$17,600 from current excess operating funds.

#### Questions/Additional Information

Please reach out to our Association Treasurer, Scott Henderson, at [jhende76@gmail.com](mailto:jhende76@gmail.com) with any questions or would like additional information concerning our 2022 financial statements or the 2023 budget. Thank you.

**Saddle Creek Association Board of Directors**