

# Treasurer's Report

Annual Meeting – June 26, 2022



**Thank you, Don.**

**Good morning, everyone.**

**I would like to add my warm welcome to our members and guests joining us today for our annual meeting.**

**I am pleased to present to you the 2022 Tahoe Donner Association Treasurer's Report.**

## TODAYS' PRESENTATION OUTLINE

- Tahoe Donner Association at-a-glance
- Operating Performance Review: Fiscal 2021, and 2022 year-to-date
- Financial Condition & Investment Portfolio
- Future Opportunities and Challenges

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### Today I'll:

- **Review Tahoe Donner Association's recent operating performance and current financial condition,**
- **Present a high level look at our investment portfolio, and**
- **Discuss future challenges and opportunities**

**I'll be happy to take a few questions later in today's meeting.**

## **TAHOE DONNER ASSOCIATION – AT A GLANCE**

- One of the largest HOAs in the USA – established in 1971
- 6,473 property owners; estimated \$4.5 Billion of Owners' real estate value
- Structured as a 501(c)4 tax-exempt organization
- Fifteen distinct operating business units; 89 full-time, non-seasonal employees
- Nearly 7000 acres of private and common space
- \$30.8 MM Budget for 2022
- \$81.1 MM of Association assets (12/31/21)
- Member's Equity of \$72.3 MM (12/31/21)
- Strong financial position

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**The is a snapshot of our association, presented for the benefit of long-time members and new.**

**We are in a strong financial position. Members' equity increased 7.3% last year. Member's equity represents the collective net worth of our association.**

**Homeowners would know that the value of their property has increased substantially in the past several years, too.**

**There is a strong correlation between the quality and breadth of our amenities, our Association's financial position and member home values.**

## **OPERATING PERFORMANCE - BACKGROUND**

- Tahoe Donner Association (“TDA”) uses fund accounting to track our results.
- Recurring operating expenses and revenues are captured in the Operating Fund.
- Long term asset refurbishment, repair and replacement activity is conducted in our capital funds (Replacement Reserve, Development, and New Machinery & Equipment funds).
- Each year, a comprehensive budget (for all funds) is developed by staff and approved by the Board. This sets the annual assessment.
- The Davis-Stirling Act (California HOA law) requires TDA to develop an Operating Fund budget with a \$0 net result.

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**Before reviewing our operating performance and financial condition, I’d like to offer a brief refresher about how our “fund” accounting system works.**

**The Operating Fund tracks annual operating expenses and revenues such as payroll, utilities, food and beverage revenues, ski hill lift tickets, golf green fees, etc.**

**We also have three capital funds that represent our savings for refurbishment, repair and future replacement of our existing assets and the development of new amenities.**

**Every year, portions of the Annual Assessment are allocated to each of these four funds.**

## **OPERATING PERFORMANCE - FISCAL YEAR 2021**

- TDA's Operating Fund finished \$850,213 *better* than budget as expenses were tightly controlled during a year when COVID-19 continued to affect operations.
- Operating Revenues were roughly in line with the Budget, while Operating Expenses were 4% favorable to Budget.
- The 2021 Operating Fund surplus is available to the Board for a potential transfer to our capital funds or to support current operations.
- The compound annual growth rate in the Operating Fund portion of the Annual Assessment since 2011 is 2.8% which compares favorably to average inflation.

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**The Association faced many operational and financial pressures in 2021 during the second year of the Covid-19 pandemic. Despite these pressures, your association weathered the storm reasonably well.**

**We generated an Operating Fund surplus from skillful expense control by our management team.**

**I would like to take this opportunity to thank our staff for their extraordinary dedication, and our general manager, David Mickaelian, for his steadfast leadership during the pandemic. Importantly, I would also like to thank the homeowners for their patience and support.**

**Significantly, the portion of our annual assessment that supports the Operating Fund, or the spending that we can control *right now*, has increased at a 2.8% compound annual rate since 2011. This compares favorably to the average inflation rate during the same time.**

## **OPERATING PERFORMANCE – YEAR TO DATE 2022**

- Through May 31, 2022, TDA's Operating Fund is approximately \$171,724 (or 9%) *ahead* of budget.
- This favorable budget variance likely will erode through the summer months as expenses increase to support a broader suite of programming activities.
- We expect upward pressure on expenses as we address food cost inflation, compete for staff to fill key frontline positions, and deal with higher energy costs.
- Our management team is working diligently to make sure that we stay on budget.

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**Through the first 5 months of fiscal 2022 we are slightly ahead of budget in the Operating Fund.**

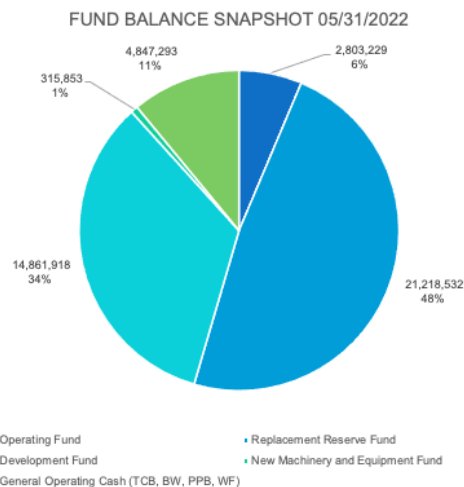
**Our positive budget variance will likely erode through the summer as is typically the case.**

**Like many businesses in the region, we are experiencing upward pressure on wages and materials cost throughout our operations.**

**Our staff continues to focus keenly on expense control and operational efficiencies to stay within the budget.**

## FINANCIAL CONDITION & INVESTMENT PORTFOLIO

- At May 31, 2022, TDA had \$44 MM available to support our Operating Fund requirements and our Replacement Reserve, Development and New Equipment fund needs.
- Fund balances will decline through the year as we invest in key renovation and repair work during the summer/autumn construction season.
- At 12/31/21, our Replacement Reserve Funding Percentage stood at 38%, the highest level ever.



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**TDA has \$44 MM of funds available to support our operations and the repair, refurbishment and eventual replacement of our physical plant.**

**This year we expect combined Replacement Reserve and Development Fund investments to be approximately \$7.3 MM depending upon weather and permitting.**

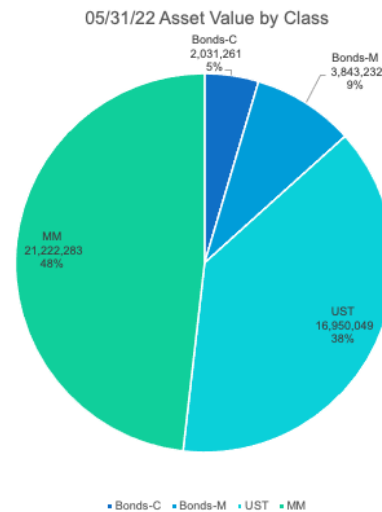
**One measure of our strong financial position is our Replacement Reserve Funding ratio. At 38%, it is at the highest level in the Association's history. We are well prepared to maintain our existing physical plant.**

**Keeping our assets in excellent shape reduces our long run operating costs, increases member enjoyment and contributes to stronger property values.**



## FINANCIAL CONDITION & INVESTMENT PORTFOLIO

- The consolidated portfolio is invested in a suite of high quality, conservative investments in accordance with the TDA Investment Policy.
- The asset mix includes US Treasuries, bank CDs, corporate and municipal bonds, money market instruments and cash at banks.
- Every bond in our investment portfolio has at least one credit rating of A3/A-, or higher.



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**We do not take unnecessary risk in our investment portfolio to capture better returns. We do not invest in equities, commodities, or crypto-currencies.**

**A significant portion of our portfolio is invested in highly rated US Treasury Securities which are rated Aaa by Moody's and AA+ by Standard & Poor's.**

**We also have smaller corporate and municipal bond portfolios. The issuers in those portfolios each have at least one A3/A- quality credit rating.**

**Now that interest rates have moved higher, we are transitioning out of shorter-term money funds into longer dated, better yielding investments.**

## **FUTURE CHALLENGES & OPPORTUNITIES**

- Continue to refine our fiscally sound funding program for the new Lodge at Downhill.
- Accelerate long overdue planning for a Building Replacement Fund.
- Manage responsibly the growth of the Annual Assessment; do so with discipline and attention to our fiduciary duty under Davis-Stirling.



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**As identified in the current Draft 5-Year Capital Funds Projection, average annual increases in the Development Fund portion of the Annual Assessment for 2023 and 2024 of roughly \$156 per year, or 43 cents per day, will allow us to accumulate the necessary funding for the new Lodge at Downhill as well as complete other important capital projects.**

**We will continue to refine this funding program as we obtain better cost information through the design development process.**

**TDA has 10 or so buildings – with an estimated replacement cost of roughly \$28MM - that will need to be replaced over the next 10-20 years. Developing a sound plan to address this capital need might be the Association’s most important financial task over the next 12-18 months. Like a sound college savings program for our children, time can be our ally.**

**The Board has asked the management team, the Finance Committee and the Long-Range Planning Committee to collaborate on this important Building Replacement initiative.**

**THANK YOU**



**You can find current and historical information about Tahoe Donner's operating performance and financial condition on our website.**

**Now, I'll turn the podium back to our General Manager, David Mickaelian.**