



Budgets, Reserves & the IRS Financial deep dive findings

**Report to SSA BOD
Marsha Campbell
~~Nov 16, 2024~~
January 18, 2025**

Introduction and Disclaimer

To compile this presentation, I studied HOA and other laws, interviewed past board members, and utilized SSA documents when available. I have requested additional financial documents but have not yet received them, so some of the numbers may change as better information becomes available.

Originally created as a presentation to the SSA Board at the November 16th directors' meeting, a partial version was allowed to be given at the January 18th meeting.

This information should not be taken as representing the SSA board of directors but reflects my own opinions and conclusions after conducting my own investigations into the financial dealings of the association.

Marsha Campbell, SSA director, January 20, 2025

HOAs aren't allowed to make money

**HOAs cannot collect more money
than there is a plan to use**

**HOAs cannot save or spend money on
anything not in the plan**

All funds must be in the PLAN

Two Main Kinds of Plans

Operating Budget

Annual, routine expenses

Replacement Savings = Reserves

Predictable, defined lifespan

Bigger ticket expenses

Each item has its own savings fund

**Reserves are NOT savings accounts
they are planned budgets**

Reserve Study

How much does it cost and when will it need replacing?

Grounds	useful life	remaining life	current cost	recur?
Concrete Slab - Repair	5	4	\$2,080	
Wood Decks - Repair	10	2	\$4,165	T
Bear Boxes - Replace	20	19	\$2,850	T
BBQs - Replace	10	9	\$850	T
Picnic Table/Bench - Replace	10	3	\$7,855	T
Lake Entrance Metal Gate - Replace	30	0	\$3,000	T
Split Rail Fence - Replace (25%)	5	1	\$4200	T
Gazebo & Changing Rooms -	30	15	\$7,970	T
Weir Gate - Replace	25	24	\$833	T
Earthen Dam - Inspect	8	0	\$4,165	T
Bulletin Board - Replace	15	14	\$1,100	T
Bridges - Repair/Replace	5	1	\$3,215	T
Lake Platforms- Replace	25	17	\$7,495	T

Each item has own replacement schedule

			funds available	35,247	37,529	44,537	54,893	61,208	73,906	84,130	94,159	104,641	114,328	124,358	134,627	144,765	154,339	164,416	174,498	184,979	
	14,250	add from dues	spend this year	12,400	7,637	4,419	8,583	2,341	34,761	8,854	17,429	5,276	1,109	7,035	10,264	5,938	11,535	1,664	104,703	18,583	
	34,726	starting amt	remaining	22,847	29,891	40,118	46,310	58,867	39,145	45,276	42,731	52,365	66,219	74,323	79,863	88,827	92,803	106,752	17,795	14,397	
Grounds	useful life	remaining life	current cost	recur?	Year																
					0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Concrete Slab - Repair	5	4	\$2,080						2,341												
Wood Decks - Repair	10	2	\$4,165	T			4,419										5,938				
Bear Boxes - Replace	20	19	\$2,850	T																	
BBQs - Replace	10	9	\$850	T										1,109							
Picnic Table/Bench - Replace	10	3	\$7,855	T				8,583										11,535			
Lake Entrance Metal Gate - Replace	30	0	\$3,000	T	3,000																
Split Rail Fence - Replace (25%)	5	1	\$4,200	T		4,326					5,015					5,814					6,740
Gazebo & Changing Rooms -	30	15	\$7,970	T																12,417	
Weir Gate - Replace	25	24	\$833	T																	
Earthen Dam - Inspect	8	0	\$4,165	T	4,165								5,276								6,684
Bulletin Board - Replace	15	14	\$1,100	T														1,664			
Bridges - Repair/Replace	5	1	\$3,215	T		3,311					3,839					4,450					5,159
Lake Platforms- Replace	25	17	\$7,495	T																	

funds available	104,339	108,416	122,498
spend this year	11,535	1,664	104,703
remaining	92,803	106,752	17,795

Make sure to have enough when several things need to be replaced at once

Calculated annual amount needed to save for future maintenance. This is the amount to put in the budget.

14,250	add from dues
34,726	starting amt

Everything is on a schedule the idea is to save enough so that there is \$ when each of them needs attention. There are several ways to calculate the amount that goes into the reserves.

Intuitive way to make a budget:

Any extra money after expenses allocated to reserves

Legally compliant method:

Calculate what is needed to fund

- 1) annual operating expenses**
- 2) reserve study calculated amount needed to maintain existing assets**
- 3) amount saved for specific capitol improvements, if any***

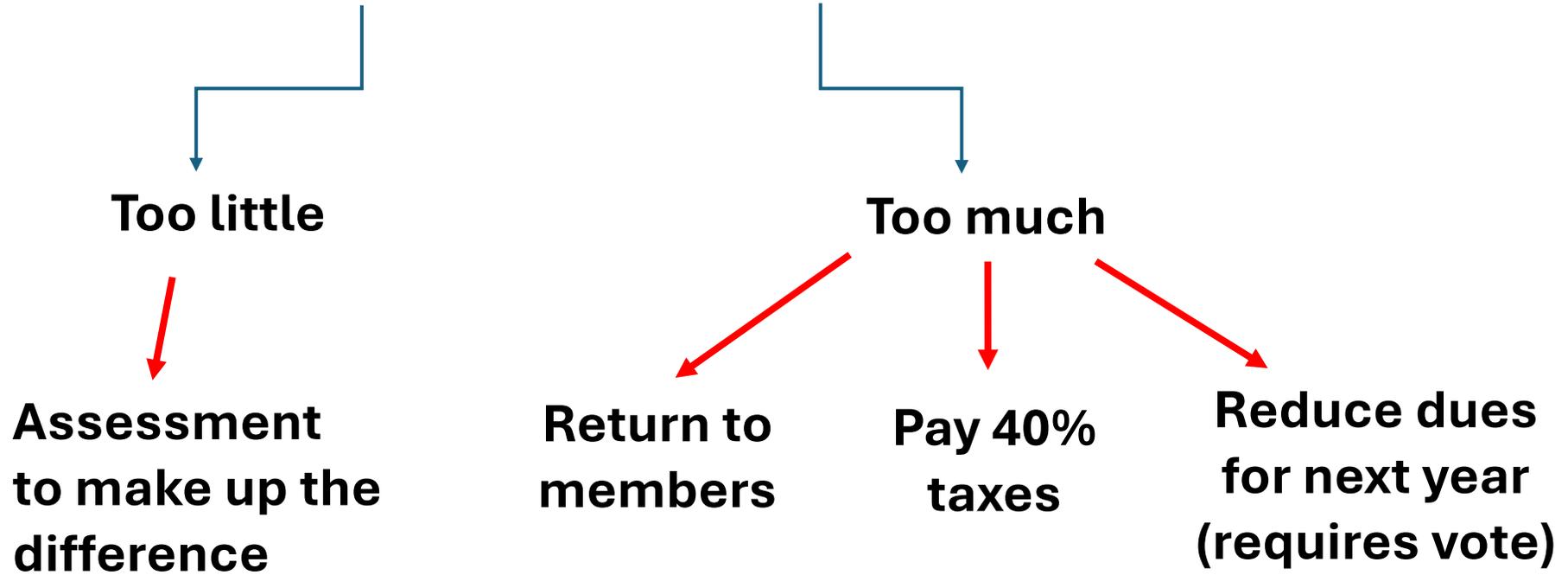
Subtract out any carryover from last year's excess*

Adjust dues down or up (20% max) to fully fund the annual budget

* Requires member vote

HOAs can't make a profit

If an HOA didn't figure budget right



IRS apparently does not allow just putting the excess into savings/reserves

IRS REVENUE RULING 70-604

To avoid the Association being taxed on annual income in excess of annual expenses, the members must pass the following resolution, in accordance with IRS Revenue Ruling 70-604: RESOLVED, that any excess of Association revenue over Association expenses for the current tax year shall be applied to the next tax year's member assessments. **Vote YES or NO, by filling in one circle at right.**

- YES (*in favor of the Resolution*)
- NO (*against the Resolution*)

IMPORTANT ELECTION INFORMATION ON OTHER SIDE



Use the Inspector of Elections for this election

What is the source of the funds in our reserve account?

President's Winter Newsletter, 2019:

“Our reserve fund purposely has been built up over the last few years in anticipation of the new water system”

2019	\$352,800
end of FY 2019	add \$134,000
2020	add \$154,000

beginning of water project **\$641,800 estimated minimum in reserves**

“In the future, the bulk of our reserves will go toward repaying a USDA loan”
- SSA BOD 2019

What is the source of the funds in our reserve account?

We paid for \$323,022 CCWD connection fee *

We were reimbursed that money out of the loan.

That money is now being used for the lake

So we essentially are **borrowing \$323,000 for the lake**

***There was an expectation the we would contribute to the project out of our own funds**

After the water project, there was over \$700K in the reserves

We did vote to carry excess dues payments forward but the dues were not reduced accordingly as required.

The extra funds were probably added to the reserves but the reserves were already over-funded

That means we were making a profit, and sets us up for tax liability

This is NOT solved by spending down the reserves

Tax liability is calculated on an annual basis

Back taxes from previous years are not forgiven if your income goes down this year

“In the future, the bulk of our reserves will go toward repaying a USDA loan”

After the water project, there was over \$700K in the reserves

Using the IRS criteria, the leftover money from the water project should have been returned to members

But was that money really left over?

Our USDA contract requires us to have saved \$880,000 by 2050 in a separate account to replace water system parts

In order to get there I calculate we need to set aside

\$17,685/year = \$49/lot for 27 years

\$375,000 of that “leftover” money would fully fund that obligation

Option 2

We have 40 yr USDA loans totaling **\$2,760,000**

\$2,260,000 @ 1.88% annual pmt \$82,219

\$500,000 @ 1.38% annual pmt \$16,650

If we did as members were promised and paid down our loan...

Use water funds to pay down loan	extra principal	USDA main loan	\$200,000	\$273,850	\$373,850
	amount saved in interest		\$177,241	\$235,066	\$307,225
	years early we pay off loan		5 yrs	7 yrs	9 yrs

note: USDA contract states that they can call in our loan whenever they want

We currently have **\$463,862** remaining in our non-USDA reserves, most of which was from the water project

An idea to address the taxes issue

HOAs are not a business, they can't make a profit.

There is no "slush fund"

Mutual benefit corporations are a non-profit business and have more options.

If we split the budgets for the HOA and the Water then perhaps we can assign the accumulated water funds to the water side and use them for water purposes legally without paying taxes or returning them to the membership.

After the water project, there was over \$700K in the reserves

Almost half of the water system money has already been or will soon be spent on lake engineering

No good ideas how to fix that...

The planned SOA upgrades to the lake would be expensive and we do not have money for construction

How do we finance issues with the lake?

Our Bylaws prohibit the Board from spending over 25% of budget (\$60,412) without a vote unless it's for something that has already been saved up for and now it's time to do that project.

Big projects require member approval according to our bylaws. A big project cannot be split into smaller projects to circumvent a vote.

SSA Bylaws

Article VIII “Duties and Posts of the Board” Section 8.02 “Limitations on Powers” :

Page 25, Section 8.02a "Without the vote or written assent of a majority of a quorum of the Members of the Association, the Board shall not incur aggregate expenditures for capital improvements to the Common Areas in any fiscal year in excess of twenty-five percent (25%) of the budgeted gross expenses of the Association for the fiscal year, provided, however, that this limitation shall not apply to the expenditure of any funds **accumulated** in a reserve fund for capital replacement or new capital improvements so long the expenditure is **for the purpose for which the fund was established.**"

The SOA recommendations in the Feasibility Study include constructing upgrades to the lake that do not currently exist, have a high price tag, and will increase the value and longevity of the asset.

Meets the accepted definition of a Capitol Improvement

Lake feasibility study calls for:

Rebuilding portions of dam

Building swales and lined channels

Installing Geotech plastic liners

Changing slope and grade

Redirecting water flow

Spillway Sluice gate mechanism

Installing splash pools

Price tag of \$1 – 2 million +

The construction cost has not been determined but the engineering is being spent right now. Once a price is determined

Construction funding could come from an assessment (could be lesser amounts multiple years) which requires a vote

or the same amount put into a reserve account and saved for through dues increases. This also requires a member vote.

It's members money.

HOA law gives members a voice in how it's spent.

**I personally believe that our members love the lake.
A great project, well presented, will have their support.**

