

# Review of Annual Assessment Rate in consideration for setting 2024/2025 fiscal year Annual Assessment Rate

Version 4

January 2024

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Please click onto blue highlighted words for expanded information.

This report is a recommendation to the BOD from the Finance Committee.

This report<sup>1</sup> fulfills (2) requirements/needs:

1. It fulfills the 9MR HOA [Fiscal Management Policy](#) requirement that every (3) years there is a specific review and incorporation of the last three years of historical expenditure data into the prior historical data so that an accurate updated annual per-Lot assessment rate can be arrived at, and
2. it arrives at a specific base calculated per-Lot assessment rate needed for the 9MR HOA for the coming fiscal year (24/25) given current expenditure needs and prices. However, it *does not* include the 2021 Vote Item #3 approved additional assessment rate of \$21.43 per Lot.

This report contemplates including only those expenditures that are minimum required by function of CCRs and state laws, so any expenses for potential 'capital improvement' projects, maintenance standard increases, or categories beyond those reflected in the P&Ls would have to be added to this report's findings.

This report complies with the requirements of the 9MR HOA [Fiscal Management Policy](#) and is based on expense data from the HOA Quickbooks accounting [P&Ls](#).

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**Summary:** Considering only P&L numbers (complete fiscal years 2008 through May 2023) and then adjusting to real-world circumstances and expectations and inflation as discussed or linked to herein, the gross HOA billing at current supply prices for the considerations described in the paragraphs above should be **\$95,051.19**, or **\$306.62 per Lot** (that's dividing \$95,051.19 by 310 total lots).

Again, this report's recommended total annual per-Lot assessment rate of \$306.62 does not include the approved 2021 HOA ballot for Voting Item #3 of an added \$21.43 per Lot for those funding items. In other words, if you add this report's rate and the 2021 Vote Item #3 rate, the 24/25 assessment rate should be no less than **\$328.05**.

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1 DISCLAIMER: No professional engineering services or attorney review were provided to formulate any aspect of this Report or any supplemental or other report related to this Report. This author and all directors, committee members and agents of Nine Mile Ranch HOA hereby declare they are not professional engineers and/or attorneys, and in no way can any of this Report or supplemental or related reports be construed as including professional engineering or direct legal advice.

**General Premises:**

- Our CCRs and state laws allow for expenditures *beyond* basic needs; this Report DOES NOT contemplate or include that and includes only the expenditures required to fulfill minimum HOA governing documents requirements.
  - Figures are based on the [statements](#) for years June 2008 – May 2023 and then adjusted from there if and as appropriate. Each category below has a four-digit number with it which is the actual Quickbooks journal entry account.
  - Inflation adjustments are up to the date of December 12, 2023 using the <https://www.usinflationcalculator.com/> website.
  - The figures in this report DO NOT INCLUDE the potential added expenses of specific known forecastable road capital improvements needed to bring some road sections up to standard where year-round road access (equal to that of all other 9MR roads) would be achieved. This [linked report](#) has some practical suggestions and calculations about how the BOD could choose to raise the assessment a bit to accomplish resolving the substandard road section over time.
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<u>EXPENDITURE CATEGORY</u>	<u>ANNUAL AMOUNT</u>
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<b>1. “6120 Bank Service Charges”.....</b>	<b>\$39.00</b>
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This figure was arrived at by averaging the P&L numbers for fiscal years 18/19 – 22/23 only, for the following reasons:

- The charges during those years are mostly for accumulated fees charged to the HOA from the bank for Canadian payers. In the years prior to 18/19 the charges were much higher because the HOA was automatically paying the Canadian fees; the BOD had not yet acted to inform Canadian owners requiring *them* to pay those fees. So years 18-23 reflect a consistent policy of having Canadian payers pay for the fees, leaving behind the portion that the HOA was stuck paying for.
- It cannot be predicted if future BODs/treasurers will fail to continue the Policy, so there is no reason to change the scope of averaging suggested herein.

<b>2. “6125 Office Supplies/Postage/Printing” .....</b>	<b>\$2699.11</b>
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- Since HOA boards have been being elected by the membership in 2018 they have conducted regular and consistent newsletter mailings per year, have sent out several impromptu informational letters to the membership and conducted consistent annual mail-out ballot votes and occasional special assessment votes. The treasurer has sent yearly assessment billings to all members and also monthly statements to past-due accounts. This level of communication and billing/collections activity would be normal for a fully functioning HOA. In years prior to the current era of where boards have been elected, those Declarant-appointed boards sent out very few informational mailings or newsletters, conducted two ballot elections in 21 years, and only annual billings were sent out (not monthly past-due statements). So as a base calculation we believe it is correct to average fiscal years 18-23 only as a realistic trend for this report.
- As shown in annual [P&Ls](#), during years 18-21 this account category was separated into two

accounts (6125 and 6140). So to be correct we are combining the two accounts in this report for applicable years.

- Individual years as follows per P&Ls:

<u>fiscal year</u>	<u>act. that year</u>	<u>adjusted to '23 inflated value</u>
18/19	\$1323.86	1618.80
19/20	2618.38	3144.75
20/21	2569.23	3048.11
21/22	2440.37	2765.32
22/23	2781.75	<u>2918.59</u>
		\$13,495.57 divided by (5) = \$2699.11

**3. "6141 Post Office Box Fee" ..... \$166.00**

Based on current rates.

**4. "6185 Liability Insurance" ..... \$1354.00**

Per rate paid in last fiscal year (spring 2023). The rate included what appears to be a reasonably comprehensive policy suited for our HOA and the likely liabilities we face, including but not limited to:

- \$4,000,000 general aggregate
- \$2,000,000 liability aggregate for all directors, officers and agents and employees of the HOA
- covers the HOA's road rake
- covers non-owned auto use, this added in mind particularly to cover a volunteer who uses their own truck while raking roads
- the policy has already been 'tested', having paid out benefits for a threat of suit that an HOA member brought against a director in 2019.

**5. "6230 Licenses and Permits" ..... \$20.00**

Current rate for the annual Washington state non-profit corporation license.

**6. "6234 Quick Books" ..... \$639.00**

This is the current rate per year for total fees.

**7. "6235 Website" ..... \$234.00**

Charges included and not included:

- Includes direct charges for the website itself, which are on a bi-annual basis.
- Includes annual charge for Wordfence hacking protection, which the Board found warranted in 2019 because of the consistent high amounts of hacking attempts that were and are regularly occurring.

**8. "6255 Meeting Expense" ..... \$607.96**

Includes \$207.96 current annual fee for Zoom video conferencing subscription, \$300.00 to pay a non-interested fiduciary to receive, secure and deliver annual voting ballots at the annual membership meeting, and \$100.00 gratis to a local retail venue for the Board to hold observable counting of the annual ballot vote. All are numbers based on most recent fiscal year expenditures.

**9. “6270 Accounting Fees/Tax Return” ..... \$2725.00**

1. Based on 9/23 quote. The figure is for paying “HOACPA” to conduct the [state-required annual audit](#) if the audit is not waived by a vote of the membership per the same state statute. The state-required audit has been applicable to our HOA for the last two years, and the first year the membership voted to have the audit and in the following year the membership voted to waive the audit, so by nature it is impossible to plan whether this expenditure will absolutely be incurred any given year. So good fiscal planning suggests it is best to plan on collecting the funds through the annual assessment rate, and if it is not used then credit the audit value in the following year’s assessment calculation (please see #19 below). Additionally, the \$2725.00 fee through HOACPA includes them producing and filing the HOA's annual tax return, so keeping this fee planned will cover the annual corporate tax filing as well.

**10. “6275 Reserve Study Fee” ..... \$350.00**

Per [state statute](#) our HOA is required to have an “independent reserve study professional” perform a reserve study at least once *every three years*, so this figure is 1/3 of the total fee the HOA was charged the last time (\$1050), in early 2023. That fee was also based on the premise of current voluntary Road Committee members having the capability to severely augment the Professional, which caused the fee scenario to be far less than it would otherwise likely be. As per the explanation in [this report](#), whether our HOA will have future capable Road Committee managers/members who can continue with that volunteer augmentation is unknown, but for now the category is planned that it will.

**11. “Legal Fees (includes 6280, 6281, 6282, and 6283)” ..... \$6547.28**

The projected annual figure is based on averaging actual P&L expenses shown for years 2018 – 2023 after first adjusting them for inflation. The reader will note by looking at all Quickbooks P&Ls (years 2008 – 2023) that the above projected figure is far above the yearly average prior to 2018; the current Board feels that the years 2018 to present are most likely a realistic expectation for the future because it is during these years that the Board and hence the HOA has actually attended to and acted upon all levels and arenas of legal/compliant HOA management/litigation (including completing two civil legal cases) and also therefore also risking that same level of legal liability and needing that same level of legal counsel and representation.

Calculation basis as follows:

<u>fiscal year</u>	<u>act. that year</u>	<u>adjusted to ‘23 inflated value</u>
18/19	6349.00	7763.49
19/20	812.50	975.83
20/21	11,648.30	13,819.44
21/22	5443.50	6168.33
22/23	183.00	<u>192.00</u>
		28,919.08 divided by 5 years = \$5783.82

Now we need to adjust that expense value upward for the fact that the current HOA attorney is increasing their rate in April 2024 from \$265.00 per hour to \$300.00 per hour; that is an increase of 13.2%, so increasing \$5783.82 by 13.2% = \$6547.28

**12. "6285 Lien Expense" ..... \$0.00**

While the HOA Quickbooks system shows an expense category for this subject there is not a reason to collect assessment income to pay for this expense, explained as follows: Lien fees are incurred by the HOA when a lien is placed and when it is removed. Those fees are charged to the delinquent Lot Owner and are collected when the lien is satisfied at the time of property sale; when they are collected they come back to the HOA as "lien fees income". So technically all "lien expenses" to the HOA are collected at some point.

**13. "Road Maintenance" ..... \$37,454.65**

As shown in [this report](#), this category includes P&L categories 6705 Road Gravel, 6710 Raking, 6715 Ditch/Culvert Cleaning, 6720 Other Road Materials/repairs, 6725 Admin Labor and Materials, 6730 Capital Improvements, 6735 Emergency Repairs, 6740 Erosion Prevention/Control, 6700 Road Maintenance (a general catch-all category for all non-winter road maintenance prior to 2018/19), 6755 Supplies (a general catch-all category about maintenance/repair supplies prior to 2018/2019), 6741 Road side/Easement Maintenance, 6736 Road Base Repair, and 6706 Gravel Machining. It also includes annual gravel replenishment adjustments for increased traffic as shown in the report. The general idea is to capture all regular annual road maintenance needs except winter plowing and sanding and weed spray (those are separate categorical analyses below).

**14. "6745 Weed Spray" ..... \$12,812.60**

According to HOA accounting records and contractor bills on record and witnesses, there have been three different 'concepts' of action that have been applied to weed spraying in Ranch history, each with different results: 1) neglect spraying, 2) spray heavily biannually and lightly the years in between (which was a deliberate spraying regimen), and 3) spray annually and vigilantly according to what evidence of emerged weeds showed visually throughout the weed and overgrowth season. Concept #1 was obviously ineffective and promoted the propagation of weeds which in turn was a neglect of HOA responsibility, Concept #2 – after many years – resulted in a lot of weeds going unsprayed and therefore caused undue weed propagation (even to the point of at least one HOA member threatening legal suit against the HOA, including supplying supportive pictures of the claims of damage), and Concept #3 simply made sure that all weeds and overgrowth were controlled annually. Because weeds are sprayed according to the volume of their presence, allowing weeds to propagate without spraying just increases the volume of spraying needing done. So this category calculation is based on modeling the five years when Concept #3 was applied (fiscal years 2018 - 2023), each year being adjusted for inflation as follows:

<u>fiscal year</u>	<u>act. that year</u>	<u>adjusted to '23 inflated value</u>
22/23	\$10,550.94	11,069.95
21/22	10,444.21	11,834.91
20/21	11,191.78	13,277.83
19/20	10,992.45	13,202.23
18/19	12,003.75	14,678.06
		\$64,062.95 divided by (5) years = \$12,812.60

**15. "6750 Snow Plowing Labor & Materials" ..... \$20,882.59**

Per the [Supplemental Report](#) this is an averaged figure using all 15 completed years of accounting records, having first adjusted each year to current plowing rates. Then added compensation was given for the fact that more roads are plowed now than in the past, so each of those prior years was adjusted higher to reflect this issue before averaging was done, as the linked report shows.

**16. “6751 Winter Sanding” ..... \$3947.72**

P&L averaging and adjusting for inflation. Sanding has only been a demonstrated policy and been performed consistently in years 2018 – 2022 so far, so those are the only years worth of data being considered here:

<u>fiscal year</u>	<u>act. that year</u>	<u>adjusted to ‘23 inflated value</u>
18/19	\$892.65	1,091.52
19/20	2125.04	2,552.23
20/21	12,032.40	14,275.13
21/22	0.00	0.00
22/23	1734.40	<u>1,819.72</u>
		\$19,738.60 divided by (5) years = \$3947.72

**17. CCR Reserve Fund Deflation Value ..... \$4322.57**

This is the value that the reserve fund has lost due to inflation for fiscal year 2021/2022 (the last full fiscal year that annual federal inflation data can be applied to), which needs to be compensated.

It is important to understand that the reserve fund is essentially a cash-buffer amount sitting in HOA bank accounts and CDs that consists of cash that was collected in the past, so its power to purchase *current* goods and services is reduced by the value of inflation each year. The reserve fund has to be able to purchase, at any time, current-value/priced services that are beyond the current annual budget/income... Hypothetical xample: a road washout occurred last week and the cost to repair it exceeds the current annual budgeted amount for the applicable road maintenance categories of “emergency repairs” and “erosion control”, so the excessive portion of the repair cost has to be paid from the reserve fund. If we do not compensate the reserve fund each year for the value lost due to inflation then the fund will not be able to pay fully for the inflated current cost of goods and services needed to fix the road washout.

Calculation as follows:

1. Start with the ‘reserve fund’ value as of the last day of fiscal year 21/22. Per the [May 31, 2022 HOA balance sheet](#), the total “Bank Accounts” assets (categories 1000, 1001 and 1002) at the end of that fiscal year were \$87,873.09. This is essentially the ‘reserve fund balance’, as it is all cash left over after the year’s expenses and all other HOA obligations were paid.
2. According to the <https://www.usinflationcalculator.com/> website, the value of inflation from 2022 to 2023 on \$87,873.09 is \$4322.57.

**18. Credit for Various HOA 22/23 Profit Categories ..... <\$1276.49>**

As our HOA is a not-for-profit corporation it is appropriate to credit back to the membership any ‘profit’ made; the only profit comes from the following 22/23 financial categories:

- \$731.49 from category 4010 (interest income from past-due member payments)
- \$545.00 from category 4015 (late fees income)

**19. Credit for 22/23 Audit Fees Waived By Membership Vote ..... <\$2524.00>**

As indicated in #9 above, the membership can vote to waive the annual audit, which it did in 22/23. So the expense of that audit, which was collected as per #9 above, should now be refunded back to the membership in the form of reducing the next year’s annual assessment rate.

- Start with \$2749.00 in the [22/23 adopted budget](#) for “Audit expense”,
- minus \$225.00 of that which was paid to have HOACPA do the annual HOA federal tax return (per 22/23 P&L category 6720 “Accounting Fees/Tax Return”)

**20. Charge for Uncollected Assessments ..... \$4050.20**

Every year there is a portion of assessments that go uncollected (ie. delinquent assessment charges never paid by Lot Owners).

- a. Per the current Treasurer’s Assistant the uncollected rate is maintaining at 4%.
- b. The rate would be figured against whatever projected billing income for 24/25 is, but that is currently unknown until the BOD decides on a final assessment rate. So the best we can do right now is the following:
- c. Start with the Annual Assessments billing income from the last approved HOA budget – fiscal year 2023-2024 – which was \$94,612.00.
- d. Add to that the predetermined billing income rate of \$21.43 per lot that was established by the 2021 membership vote for Vote Item #3; that would be \$21.43 x (310) lots = \$6643.30.
- e. c. + d. = \$101,255.00
- f. 4% of \$101,255.00 = \$4050.20

**TOTAL ALL CATEGORIES ABOVE: \$95,051.19**