

The Board of Directors  
Sugarwood Homeowners Association (SHA)

Re : Sugarwood Stingrays Swim Team Record-Keeping

I received a request recently, from Bruce Mason – Board Member to review and comment on the finances and the record-keeping requirements, going forward.

As a disclosure, I have prepared the Federal Tax Return (Form 1120-H) for the Association, the last few years, based on the accounting/financial data provided to me and have done the payroll returns/tax filings for the Stingrays Swim Team, For a prior year, though am not doing it currently.

While preparing the return, we had to identify, segregate the income & expense items, separately for the Association and the Stingrays. As a general rule, to meet the Exempt Function Income rule, all income / expenses for the Association – would fall under Exempt Function Income, except those pertaining to the Stingrays, which would be accounted and disclosed separately.

The Sugarwood Stingrays Swim Team had its first inaugural season in 1999. Recently, The Stingrays celebrated the 10<sup>th</sup> Anniversary of steady swim league Title climbs. Congratulations !! However, with the growth, has come the complexity of managing its finances. I gather from Bruce, that out of a total Swim team strength of 102, only 27 live in Sugarwood. That means only about 25% of the swim team live in Sugarwood. The Total Homeowners in Sugarwood is 265. The average number of homeowner families who participate on swim team is 10 – 15 . This means only about 6 % of Sugarwood families participate on swim team. Most of the regular repairs & maintenance expenses pertain to the Swimming Pool. Hence, there is a significant recordkeeping burden, to keep the Stingrays-Income & expenses separate from the general finances of the Association. It appears that over the years, there has been significant expansion of the Stingrays from outside the Sugarwood community.

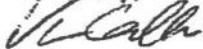
The potential of Co-mingling of records exists. The Board has multiple fiduciary duties. The Board is serving in a representative capacity, and has to put the interest of the association's homeowners collectively first. This entails exercising sound business judgement and a healthy dose of common sense. While there are widespread examples of successfully run subdivisions, there are unfortunately also well known instances of leadership failures where homeowners associations are in political turmoil, financial collapse and physical deterioration. The challenge of each volunteer director is to exercise good leadership to avoid such a downward spiral of economic and political self-destruction.

In this context, I would recommend that the business records and tax returns of the Association and the Sugarwood Stingrays Team – be kept separate and distinct. I am aware that the checking accounts are currently being kept separate, but it would be advisable to form a separate entity altogether for the Sugarwood Stingrays and have all the accounting/ bookkeeping run through that entity. That way all receipts, bank statements, and activities are logged in a separate set of books. With the Stingray coaches being paid as SHA employees, SHA is liable for any employee/payroll related liability including payroll taxes, Worker's Comp, etc., as well as any other liability related to having employees because the Stingrays are not a legal entity. Currently SHA is assuming potential employment related liability for an organization that is 75% non-Sugarwood residents.

I would be happy to help, if the Board decides, to form a separate entity and needs to keep the bookkeeping separate for the Sugarwood Stingrays.

Thank you for your inquiry and hope this note helps to clarify the issues.

Sincerely,



Viren Lalka, EA

Managing Partner

Lalka Tax Services, LLC.