

## **Special Board of Directors Meeting**

### **Minutes of the meeting of Three Canyons Ranch Homeowners Association**

**Tuesday - December 14, 2010 at 5:30 pm at La Purisima**

**Board Members present:** Greg Chouinard (22), Linda Gleason (19), Rich Frederici (24), Connie Foust (20E) and John Langholff (20W).

#### **Officers:**

Vice President, Greg Chouinard  
Secretary, Linda Gleason

#### **Call to Order**

The meeting was called to order at 5:30 pm by Greg Chouinard, presiding officer. He then gave a report concerning quorum requirements and the resignation of Board members Harvey Zeligman, Ron Slyter and Carl Bromund since the last Board meeting. The Board's quorum requirement for meetings is now four.

#### **Acceptance of Agenda**

A motion was made and seconded to accept the meeting agenda. The motion to accept the agenda was carried unanimously.

#### **Acceptance of October 13, 2010 MHOA Board Meeting Minutes**

A motion was made and seconded to accept the Minutes from the October 13, 2010 MHOA Board Meeting. The motion was carried unanimously.

#### **Call to Membership**

There was some discussion of CC&Rs as well as assessments.

#### **Treasurer's Report**

The Treasurer's Report was passed out to all members present. The Treasurer had also requested that the following notations be made in these minutes:

1. The Treasurer provided copies of the monthly financial reports prepared by the Association bookkeeper covering September and October 2010, including the Balance Sheet, Reconciliation Reports, Deposit Detail and Check Detail.
2. The Treasurer circulated a copy of the bank statements for September and October 2010 to the members of the Board.
3. The Treasurer provided copies of the Compilation report (prepared by the Association's accountant) from the four prior fiscal years.

Balances in association accounts, delinquent assessment amounts and a listing of monthly financial reports that were distributed electronically to all Board members were verbally reported. A motion was made and seconded to accept the Treasurer's Report and was carried by a 4-1 vote. (See Attachments, pages 9- 13.)

## **Committee Reports**

### **Master Design Committee**

A report was given by Chairman, Jack Lang. (See Attachments, page 5.)

### **West Gate Administration Committee**

A report was given by Chairman, Tom Pickering. (See Attachments, page 6.)

### **Road Committee**

A report was given by Chairman, Jim Dobis. (See Attachments, page 7-8.)

### **East Gate Design Committee**

A verbal report was given by Chairman, Greg Chouinard. The committee members believe the best course to take is to install 3 gates at the eastern end of Three Canyons Ranch: at the end of Coyote Song and the end of Airstrip where they attach to 3 Canyons Road and on 3 Canyons Road just east of Rio Santiago. There were suggestions to add community entrances from Palominos Road to Vista Montanas and Avenida Jicarilla to this list.

### **Governing Documents Committee**

A motion was made and seconded for the Governing Documents Committee to develop rules that clarify CC&R section 4.2.6 for presentation at a future Board meeting.

## **Business**

Road Committee request for additional funds:

There was discussion of the Road Committee contracting for materials and services used in a maintenance project to replace culverts. One contract was with Sierra Vista Builders Supply for culverts, which had already been delivered and placed: \$10,329.80. The other contract was with Native Escapes to install the culverts: \$14,973.00 + tax. This work was 67% complete. A motion was made and seconded to pass a resolution to authorize the Treasurer to adjust the Budget to cover a shortfall. The motion was carried unanimously.

Consider development of a plan to create appropriate financial & risk management: A motion was made and seconded to table any discussion for a future meeting. The motion carried unanimously.

### **Appeals:**

The MDC had received several appeals after sending out Notice of Violation (NOV) letters to members in violation of CC&R section 4.2.6. A motion was made and seconded to postpone all current action on NOVs that have been issued and to stop issuance of new NOVs on passenger vehicles in violation of 4.2.6 until new rules are approved. These rules must be approved by the Board by the end of the April Board meeting. The motion was carried unanimously.

### **Update of Standard Collection Procedures:**

A motion was made and seconded to table this agenda item until the January 2011 Board meeting. The motion was carried unanimously.

### **Budget Adjustments:**

The West Gate Administration Committee requested additional funds to cover the cost of two previous vandalism incidents. In both cases, insurance covered all but \$500 deductibles to repair damage. However, the insurance payouts had been added to the general fund. After discussion of the situation as well as the potential for additional vehicle damage to the gate before July 2011, it was decided to change the amount requested to \$8000. A motion was made and seconded to

transfer \$8000 from the general fund to the gate committee budget. The motion was passed unanimously.

The Road Committee requested additional funds to cover the completion of the culvert installation project, as well as mowing and road maintenance for the rest of the fiscal year. A motion was made and seconded to transfer \$16,000 from the general fund to the road committee budget to cover these anticipated expenses. The motion was carried by a 3 to 2 vote. Board member, Connie Foust, requested that it be part of this record that she was one of the opposing votes.

**Consider motions to appoint members to vacant seats on the Board of Directors under the provisions of Section 3.3 of the Bylaws:**

A motion was made and seconded to appoint Mike Needham from section 23 and Jack Lang from section 27 to the Board of Directors to fill officer slots for their sections until their terms end in July 2011, per section 3.3 of the Bylaws. The motion was carried by a vote of 3-2.

A motion was made to post the empty Board vacancies on the home page of the Three Canyons Ranch Homeowners' website and to solicit interested parties for Board appointment at the January Board meeting. The motion was carried unanimously.

**Call to Membership**

No members requested the floor.

**Adjournment**

The meeting was adjourned at 9:40 pm.

**Submitted By:** Linda Gleason, Secretary

**Attachments:**  
**Master Design Committee Report**  
**14 December 2010**

The Master Design Committee (MDC) report for this Special Board meeting will only address the vehicle parking status.

The vehicle status is:

112 original violations

12 members have been issued Notice of Violation letters.

2 of those members have MDC approved plans for correction.

15 members have been sent warning letters.

4 of those members are on hold for the correction to be completed.

11 of those members are due to receive Notice of Violation letters next week.

85 members are in compliance.

The MDC plans to canvass all properties in 3 Canyons for possible vehicle violations in February 2011.

Jack Lang

MDC Chairman

## **West Gate Report**

December 14, 2010

The West Gate has been operational for approximately 10 months. The only down time was in August when it sustained damage caused by a vehicle forcing the exit gate open otherwise, the gate operation has been uninterrupted.

When the gate budget was proposed back in July of this year we did not have sufficient history to accurately forecast all cost. As we enter the 2<sup>nd</sup> half of our fiscal year it is now evident that we will have a budget short fall of approximately \$5,000. This includes the gate vehicle damage of \$2,739 that occurred in August.

It is recommended that the board increase the West Gate budget by \$5,000 to cover our estimated expenses through this fiscal year. It should be noted that this figure does not include any allowance for additional major vehicle damage.

Submitted by

Tom Pickering

Chairman of the West Gate Committee

# 3 Canyons Road Committee Report

14 December 2010

## 1. Three Canyons Road Inspection Results: Road Intersections Inspected:

27November 2010

|                    |                                        |
|--------------------|----------------------------------------|
| Airstrip Road      | AB Material to be placed over culverts |
| Rio Santiago North | AB Material to be placed over culverts |
| Calla Mia          | AB Material to be placed over culverts |
| Mellak             | AB Material to be placed over culverts |
| Keystone           | AB Material to be placed over culverts |
| Calle Cello Grande | AB Material to be placed over culverts |

## 2. Culvert Inspection Results:

4December 2010

All culverts at this time are in satisfactory condition.

## 3. Execution of Road Related Budget Items Delegated to Road Committee by Board of Directors:

Mowing:    \$960.00

13, 14 October 2010

Pavement patching:    \$1,148.32

1 December 2010

**4. Additional Road Items for consideration, budgeting, procurement or contracting by Board of Directors:**

- Reflective Markers for driveway and road intersections: Estimated cost \$4,000.00
- Culvert Maintenance: None at this time.
- AB material to be placed over culverts: Estimated cost \$6,600.00
- Resurface Deer Ridge Road Cut at 3 Canyons Road: Estimated cost \$2,500.00

**5. Resignation of Connie Foust from the 3 Canyons Road Committee as of December 9, 2010.**

## Treasurer's Report

### 1. Balances in association accounts as of 12/14/2010.

|                  |              |
|------------------|--------------|
| Checking         | \$301,314.50 |
| Capital Checking | \$2,549.92   |
| Capital Savings  | \$69,103.02  |
|                  |              |
| Total            | \$372,967.44 |

### 2. Delinquent Assessments as of December 14, 2010

|                                                   |            |
|---------------------------------------------------|------------|
| <b><i>July 1, 2008- June 30, 2009 Amount</i></b>  | \$1,320.00 |
|                                                   |            |
| <b><i>July 1, 2009- June 30, 2010 Amount</i></b>  | \$2,571.84 |
|                                                   |            |
| <b><i>July 1, 2010 - June 30, 2011 Amount</i></b> | \$5,040.00 |
|                                                   |            |
| Total                                             | \$8,931.84 |

3. The routine monthly financial reports were prepared and distributed electronically to all Board members. The September reports were distributed on November 18, 2010 and the October reports were distributed on November 19, 2010. These reports consist of Balance Sheet, Reconciliation Sheets for the 3 Association Bank Accounts, Profit & Loss, General Ledger, Profit & Loss (Budget vs. Actual), Check Detail, and Deposit Detail. The deposit detail is supported by additional documentation as a result of Lockbox operation. I am comfortable with all of the reports except for the Profit & Loss (Budget vs. Actual). My concern is that this report may not create an understanding on the part of the reader concerning how the Association performs Budget Execution. The main implication is that there may not be sufficient transparency during Budget Execution for all fund managers to be aware of 1) Original Budget, 2) Funds Expended to date, and 3) Remaining funds available.

As an interim measure, I have developed an “ad hoc” report and began distribution of that report on October 16, 2010. I believe this item requires further discussion to inform me of the requirements (both of the fund managers and the Board) and then adjustment of the Profit & Loss (Budget vs. Actual) to meet those requirements. I would also want to obtain advice from our Accountant before implementing any change in order to ensure that our preferred alternative complies with Section 5.9 of the CC&Rs (“The Master Association , at all times, shall keep, or cause to be kept, true and correct records of account in accordance with generally accepted accounting principles, which shall specify in reasonable detail all expenses incurred and funds accumulated from Assessments or otherwise.”)

4. The Budget of the Association for the current fiscal year (as approved by the Board), allocated \$14,000.00 to the Road Committee. On November 23, 2010, the Road Committee electronically submitted to the Treasurer an invoice from Native Escapes requesting a progress payment in the amount of \$6,207.00 concerning a contract with a total cost of \$14,973.00. As of that date (due to previous expenditures) the Road Committee had \$4,190.43 available. Subsequently an invoice from Sierra Vista Builders Supply in the amount of \$10,329.80 was received. (Note: The Treasurer attended and participated in the meeting of the Board of Directors with attorney Bob Stachel on Monday December 7, 2010 at 1:00 p.m. This meeting was convened in order that the Board might obtain appropriate legal advice on options, consequences and the probability of success.)

The Treasurer requests that the Board of Directors provide a decision concerning their preference on the disposition of these invoices.

5. The Treasurer further requests that certain issues associated with budget execution be discussed in an appropriate agenda segment. These issues relate to the fact that payment of invoices (expenses) can be associated with the Attorney. These invoices include fees charged to the association in conjunction with the transfer process required under ARS 33-1806. However, there is an offsetting credit created when transfer fees are collected. I am experienced with various methods to account for such transactions. Thus, some ambiguity can exist and I would like clarification concerning this issue from the board on their intentions concerning how these transactions are scored in the context of budget execution.

6. Pertaining to the execution of the current fiscal year budget and the culvert project discussed in paragraph 4 of this report, I have developed some preliminary

observations and opinions that I would like to share with the Board and the membership. I believe the challenge is to understand “why this event has happened”. Without an adequate answer to this guiding question, the Board cannot prevent a recurrence. In addition, I believe that some of the most significant sources of conflict within our HOA are spending levels and the methods of spending.

7. I have some familiarity with **authorization** and **verification** processes. These processes can also be associated with related information flows. When an authorization or verification process is operating properly (including the associated information flow) , **transparency** is created. The assumption is that transparency would result in common understanding and consistent selection of the preferred alternative. A preliminary examination of the systems operating in our association leads me to wonder if these authorization and verification processes are appropriate. Moreover, these processes are essential if Association funds are to be protected against waste and loss.

8. Some typical authorization or verification processes might include the following:

8-1. Authorization of certain individuals to enter into contracts on behalf of the Association including financial ceilings on such authority. This might include one group of individuals with one set of spending limits and another group with different spending limits.

The Bylaws (section 4.5) state that the President... “Signs on behalf of the corporation all agreements and contracts of material importance to the corporation’s business“. The Board understands this measure and used it to draft and execute the contract for the West Gate. However, no written documentation exists concerning a specific dollar amount at which an expenditure becomes a “contract of material importance.” In addition, I am unable to locate any written description of how anyone else in the Association is designated to enter into contracts on behalf of the association and what spending limits are associated with such individuals.

8-2. Authorization of certain amounts of funding to support various projects or ongoing work whether this be in the context of a fiscal year or across fiscal years.

The Board of Directors develops and adopts (by motion) an annual budget and

makes adjustments to that that budget (if material changes occur as the budget is executed). I believe the Board understands this concept, based on the minutes from 2007, 2008, 2009 and 2010. Those minutes all contain specific language clearly indicating a Board motion to adopt the annual budget before the start of the fiscal year. This action seems consistent with the requirements in the CC&Rs'. For your reference, Section 7.3.2 and 7.3.3 are shown on page 6 of this document. The execution of the culvert project seems inconsistent with the Association governing documents and accepted practices.

Even though construction of the West Gate project was executed across multiple fiscal years, I believe that funding was authorized within each fiscal year.

8-3. Verification that the price being paid in any transaction is “reasonable”.

In my experience, this verification process is frequently accomplished through competitive bidding. I believe a common standard is “3 bids”. Operation of this process commonly requires development of a “Statement of Work” or “Request for Proposals”. It appears to me (from information that the Road Committee has provided) that some elements of a verification process are evident (please see page 7 of this report for the information provided to me by the Road Committee).

8-4. Verification that the materials were received in acceptable condition or that the work performed was satisfactory.

In my experience, these types of processes usually involve a technical representative (further designated through an authorization process) who confirms delivery or performance on the part of the vendor.

9. Any of the processes discussed in the previous paragraph (list not presumed to be exhaustive), of course, must also be evaluated in terms of cost/benefit or risk/reward and risk tolerance.

10. I do recommend that the Board consider identifying and engaging someone with appropriate expertise who might advise us concerning how to address these issues and implement appropriate corrective actions.

11. The Treasurer requests that all Board members and Committee Chairpersons present their budget proposals for the fiscal year that commences July 1, 2011. I would like to have preliminary discussions concerning these items at the next

Board meeting. The Treasurer further requests that the Board consider which of these items might be designated as “contracts of material importance” or require approval of the membership as “Common Area Improvements” under the provisions of Section 6.10 in the CC&R’s. For your reference, Section 6.10 is shown on page 6 of this document.

12. The Treasurer would like to suggest that all members of the Association consider contacting their insurance providers to discuss adequate amounts of liability coverage for persons who own property in a Homeowners Association.