

**MINUTES OF THE 2016 ANNUAL MEETING OF THE MEMBERS
OF
MORNING STAR RANCH COMMUNITY ASSOCIATION**

Pursuant to a notice duly given to all of the members, the 2016 annual meeting of the members of the Morning Star Ranch Community Association was held on Friday, February 12, 2016, at the Otero Meeting Room at the Tubac Golf Resort & Spa, 1 Otero Road, Tubac, Arizona. David Blouin, the President of the Association, acted as Chairman of the meeting, and Stephen Thomas, the Secretary of the Association, recorded the minutes.

The Chairman called the meeting to order at approximately 11:00 a.m. The members present were Howard Bach, Russ Bomhoff, Pam Brannon, Ursula Conway, Neil DeLuca, Tom and Mae Duggin, Leigh and Roy Farrell, Conrad and Inayat McCarthy, Russell Palmer, Jim and LeeAnn Wehr, Daniel and Debbie Willoughby, and Jim Wright and Jeanne Danaher. Also present was Fred Johnson as the representative of Elaine Cohen.

The Secretary said that he had caught one typo (“lost” instead of “lots”) in the fourth paragraph of the draft minutes of the 2015 annual meeting that had been sent to all members with the notice of this year’s meeting. He asked if there were any other corrections or objections. There were none, so the minutes were approved.

Pam Brannon was recognized. She said that she and her husband had recently purchased Lots 76 & 77, previously owned by the Trents, and asked if everyone present would introduce himself or herself. Once they had done so, she asked if she could be given a history of the water system and billing for its operational expenses since she had received conflicting information. Some of the other members said that they would also appreciate hearing a summary. The Chairman and Secretary gave the history, including answering questions from several members, concluding with a report on where things stood with getting Liberty Utilities to expand its service area to include the Ranch. The Secretary told everyone that they may already have received, or would soon be receiving, a Request for Service addressed to Liberty that he had prepared, which was the most recent requirement Liberty had imposed. He said that a couple of members had already given him their signed forms, and that he had spare copies for anyone who wanted to sign after the meeting.

Based on the members’ request at the last annual meeting, copies of the Association’s 2016 Annual Budget, 2015 Budget Report, and 12/31/2015 Account Balances Report had been sent with the notice of this year’s meeting so that members could submit questions in advance of the meeting. The Secretary said that questions had been received from three members, and that the Chairman and he would next try to answer them. The following questions were addressed:

1. Why is the regular annual assessment for the Ranch so much more than Salero Ranch's, i.e., approximately \$2,200 vs. \$350? The Secretary explained that far more services are provided at the Ranch, as itemized in the Budget and Budget Report. He also explained that the amount of the Ranch's annual assessment is fixed by the CC&Rs until 2018, at which time the amount would thereafter be determined by dividing the total estimated amount needed by the number of lots subject to the assessment. Russell Palmer said that the developer would still control the Board, and therefore fix the budget. The Secretary acknowledged that was true, but pointed out that the developer and the Board would be bound by the CC&Rs in determining what items could be included in the budget.

2. Why did the Budget show a line item of \$20,000 for repayment of a loan from the developer? The Chairman said that the funds had been required in connection with costs associated with the water system, primarily installation of a new booster pump and related engineering costs, at a time when the Association did not have sufficient funds on hand to pay them. The interest charged was at the minimum rate the IRS requires before it imputes interest at a higher rate.

3. What is covered by the \$48,000 "Project Management" line item? The Chairman summarized what he does, and explained that the amount was based on bids or estimates received in the past from organizations that manage properties for homeowners associations and operate private water companies. The amount being charged for the Chairman's time is substantially less than the fees quoted by these companies for far less work than he does.

4. Why are the budgeted legal fees \$15,000? The Secretary explained that one of his statements for 2014 had not been paid until 2015 due to the cash flow. That plus the extra time required by the new requirements to retain the grazing classification for tax purposes through the first three months of the year had resulted in the amount he was paid in 2015 exceeding the budgeted amount for last year. He therefore decided not to bill for any of his time since last March until 2016, and he had put in a lot of hours dealing with the assessment for water users and the questions it raised.

5. If the Association is purchasing all of its water from Liberty, why is it still paying the cost to run the well pumps? The Chairman explained that the wells were still needed as a standby water source if there was a problem in obtaining the water from Liberty, which had happened at one point during the year, and Liberty will probably require at least two of the wells with the rest of the water system, so they must be maintained.

6. Will the utility and testing costs end if Liberty expands its service area to include the Ranch? The Chairman said that all but the costs related to maintaining any remaining wells for cattle watering purposes would cease, and those would be general Association expenses.

7. What would it cost to bring the wells back on-line, as compared to the cost of buying the water from Liberty? The Chairman explained that the expenses of deepening some of the wells plus constantly having to monitor them, e.g., turning the pumps on and off, would be very substantial, and that it was unlikely that they could provide enough water to meet the Ranch's needs no matter what was done.

8. What consideration will the developer receive if Liberty expands its service area and takes ownership of the water system? The Secretary explained that the developer would receive nothing.

9. Why have accounting fees increased? The Chairman explained that this was because of the time spent related to the water assessment and responding to members' requests for information.

10. Why had the cost of trash removal increased so much? The Chairman explained that this was partly a result of the erratic timing of the billing by Canyon Disposal, shifting some of the cost forward a year, plus an increased number of pick-ups at the large roll-off waste receptacle inside the Ranch.

11. Why were the well and water line expenses so much over budget in 2015? The Chairman explained that these expenses related to installation of a new booster pump required by Liberty before they will accept the water system. He estimated that it would have cost almost twice as much to wait until the annexation was in the final stages because then Liberty's higher standards would have been applicable. The Secretary said that these were treated as "capital" expenditures, and so not passed through as operating expenses to the water users.

12. Would it be possible to split the meter servicing Lot 27 to get a better estimate of how much of the water purchased from Liberty was being used by cattle? Conrad McCarthy said that, since this benefits all owners, not just those using water, it should be a general Association expense. He explained the goals behind the report he had finished shortly before the meeting entitled "Water Usage at Morning Star Ranch," a copy of which had been posted on the HOA's website. He concluded that the Ranch was using the water that it was purchasing from Liberty, so there were no material leaks before the meters, but he was not able to refine the data enough to say with any certainty how much was going to livestock (and some wildlife) watering. The Chairman said that he would look into this suggestion, which seemed workable, and both he and the Secretary thanked Conrad for the work that he had done on the report. Conrad said he had been assisted by both Nati and the Chairman in its preparation.

Several members renewed requests made at prior meetings that the developer consider adding one or more resident lot owners to both the Community Design Review Committee and the Board of Directors. The Chairman said that Russell, Conrad and he had in effect been operating as the Committee for some time, and he would again ask the Developer to consider adding one or both of them officially. The Secretary explained

that there was a practical problem with implementing the suggestion regarding the Board because it does not hold formal meetings. The Chairman and the developer discuss matters as they arise, usually by phone or email, and when something comes up that requires a formal Board action, he is asked to prepare minutes to be adopted without a meeting, which is fairly standard practice for small corporate boards of directors. It was then proposed that a committee of owners be created who could bring the concerns of the members to the Chairman's attention, and with whom he could discuss matters of general concern, preferably before the Board takes action on them. There was general agreement among the members that such a two-way flow of information would help avoid misunderstandings in the future. The Chairman and Secretary agreed that this was a very good suggestion, and the Secretary requested the names of volunteers to serve on the committee. After some discussion, it was agreed that Pam, Conrad and Russell would be the initial members. Conrad urged anyone who had not already done so to register at <http://www.msr-hoa.org/> in order to improve and expedite the circulation of information.

There was a brief discussion of two minor matters, i.e., someone cutting the cable on the front service gate and the lights on one lot being left on. The Chairman said what had been done about both.

Several members said that this had been the most productive annual meeting that they had attended. The meeting adjourned at approximately 12:30 p.m., and was followed by a buffet lunch for those present.

Stephen A. Thomas, Secretary

Approved:

David Blouin, President

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To: Morning Star Ranch Lot Owners
From: Steve Thomas
Date: January 11, 2016
Re: 2016 Annual Meeting

Enclosed you will find:

1. The statement of the Association's Account Balances as of 12/31/15.
2. The 2016 Annual Budget.
3. The 2015 Budget Report.

In the past, we have distributed these documents to the members at the annual meeting and mailed copies to those requesting them who were not present. At last year's meeting, several members requested that they be circulated sufficiently in advance of this year's meeting so that members could send any questions to Frank Bille, either directly or through David, who could then provide answers at the meeting. Frank's email address is fbillecpa@aol.com and David's is msrtubac@alo.com. Please copy me on any emails

Account Balances - As of 12/31/2015

Account	12/31/2015 Balance
Bank Accounts	
Money Market Acct.	192.26
Operating Checking Acct.	11,303.95
Special Assessment Acct.	412.00
TOTAL Bank Accounts	11,908.21
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OVERALL TOTAL	11,908.21

**Morning Star Ranch Community Association
Annual Budget
2016**

Income;		
	HOA Owner Assessment Income	\$109,104
	HOA Owner Water System Expense Assessment Income	\$68,992
	Total Income	<u>\$178,096</u>
Expenses;		
	Accounting Fees	\$6,000
	Annual Meeting Expenses	\$1,000
	Bank Service Charges	\$100
	Tubac Foothills Ranch Assoc. Dues	\$660
	Engineering & Consultants	\$5,000
	Entry Gate Maintenance & Repairs	\$2,500
	Insurance-Directors & Officers Policy	\$2,012
	Insurance-General Liability	\$400
	Insurance-Umbrella Policy	\$4,000
	Landscaping & Gardening-Common Area	\$4,000
	Legal Fees	\$15,000
	Loan Repayment to Developer	\$20,064
	Office Supplies & Expense	\$500
	Project Repairs & Maintenance	\$5,000
	Project Management	\$48,000
	Ranch Road Maintenance	\$5,000
	Road Paving	\$0
	Taxes-Federal & State	\$50
	Taxes-Local	\$20
	Trash Removal Maintenance	\$7,500
	Utilities-Common Area	\$3,500
	Water Contract Expense	\$37,000
	Water Meter Installation	\$0
	Well & Water Line Repairs	\$1,300
	Well & Water Testing Maintenance	\$3,700
	Total Expenses	<u>\$172,306</u>
Net Budget Surplus/(Deficit)		<u><u>\$5,790</u></u>

**Morning Star Ranch Community Association
Budget Report
1/1/15-12/31/15**

<u>Category Description</u>	<u>2015</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
INCOME			
HOA Owner Assessment Income-2014	\$104,544.00	\$104,544.00	\$0.00
HOA Owner Assessment Income-Deliquent Dues Paid in 2015	\$5,000.00	\$0.00	\$5,000.00
HOA Owner Water System Expense Assessment Income-2015	\$66,000.00	\$0.00	\$66,000.00
Loans from Developer	\$20,000.00	\$0.00	\$20,000.00
Interest Income	\$2.66	\$0.00	\$2.66
TOTAL INCOME	\$195,546.66	\$104,544.00	\$91,002.66
EXPENSES			
Accounting Fees	\$6,050.00	\$4,800.00	(\$1,250.00)
Annual Meeting Expenses	\$275.00	\$700.00	\$425.00
Bank Service Charges	\$65.00	\$100.00	\$35.00
Tubac Foothills Ranch Assoc. Dues	\$1,260.00	\$600.00	(\$660.00)
Engineering & Consultants	\$8,463.00	\$5,000.00	(\$3,463.00)
Entry Gate Maintenance & Repairs	\$225.74	\$2,500.00	\$2,274.26
Insurance-Directors & Officers Policy	\$2,012.00	\$2,012.00	\$0.00
Insurance-General Liability	\$348.00	\$300.00	(\$48.00)
Insurance-Umbrella Policy	\$3,788.51	\$4,000.00	\$211.49
Landscaping & Gardening-Common Area	\$3,680.00	\$7,500.00	\$3,820.00
Legal Fees	\$13,656.00	\$7,500.00	(\$6,156.00)
Loan Repayment to Developer	\$12,509.51	\$12,510.00	\$0.49
Office Supplies & Expense	\$0.00	\$600.00	\$600.00
Project Repairs & Maintenance	\$7,305.27	\$5,000.00	(\$2,305.27)
Project Management	\$52,000.00	\$52,000.00	\$0.00
Ranch Road Maintenance	\$5,828.57	\$5,000.00	(\$828.57)
Road Paving	\$0.00	\$0.00	\$0.00
Taxes-Federal & State	\$50.00	\$50.00	\$0.00
Taxes-Local	\$18.62	\$20.00	\$1.38
Trash Removal Maintenance	\$7,951.70	\$4,000.00	(\$3,951.70)
Utilities-Common Area	\$3,259.13	\$3,500.00	\$240.87
Water Contract Expense	\$37,046.95	\$45,000.00	\$7,953.05
Water Meter Installation	\$0.00	\$0.00	\$0.00
Well & Water Line Repairs	\$16,343.02	\$4,000.00	(\$12,343.02)
Well & Water Testing Maintenance	\$3,613.00	\$4,000.00	\$387.00
TOTAL EXPENSES	\$185,749.02	\$170,692.00	(\$15,057.02)
OVERALL SURPLUS/(DEFICIT)	\$9,797.64	(\$66,148.00)	\$75,945.64