

THE RANCH AT PRESCOTT HOMEOWNERS ASSOCIATION - CHARACTERISTICS AND PURPOSE -

Almost on a daily basis, The Ranch at Prescott Homeowners Association Manager, (HOAMCO) and the elected Unit Representatives to the Association's Council, receive questions from lot owners (Association Members) regarding the characteristics and purpose of the Association. These questions have been especially frequent since: 1) September 2005, when Bullwhacker Associates, the Developer of the Ranch, turned over control of the Homeowners Association to its Members and 2) December 2005 when the first ever notice of Fees Assessment was received by Association Members. The turnover of Association control to Members (as required by the Association's governing documents) and the first ever Assessment of Membership fees to meet costs formerly borne by the Developer, caused many to realize more fully the Member responsibilities and benefits of owning property in a planned community. Therefore, to assist in better understanding, the following sections briefly summarize some of the general characteristics of homeowners association membership under Arizona law and more specifically the role of The Ranch at Prescott Homeowners Association.

Homeowners Association Characteristics under Arizona Law

The Ranch at Prescott Homeowners Association was registered as an Arizona Non-Profit Corporation by the Developer at the inception of the development (Project). Simply stated, two of the main reasons for that action were: 1) The Developer desired to put in place a set of covenants and restrictions that property buyers must observe to assure that the Ranch, as a planned community, would achieve the Developer's commercial objectives; and 2) the Developer wanted to be assured that Association Members would have at their disposal a set of tools (with force of law) to preserve and enhance their environment as well as preserve and enhance the market values of their properties. Therefore, in a very broad sense, The Ranch at Prescott Homeowners Association can be defined as a group of property owners (Members) who have agreed to a durable, communal basis for preserving, maintaining and enhancing their homes and property. This basis is provided by the Association governing documents including:

- Articles of Incorporation
- Declarations, CC&Rs, Master Deed, Plats, etc.
- By-laws
- Resolutions

These governing documents are afforded the force of law by:

- State of Arizona statutes
- Decisions of the courts

The Association has possession of and title to the common areas of the Ranch at Prescott development. It is responsible for certain elements of the maintenance, administration and control of the development through a system of property rights, binding covenants and restrictions, and rules and regulations. Therefore the Association, functions under

Arizona statutes as a quasi-governmental entity. It is directed by an elected Council consisting of one or more representatives from each of its 8 Units. These representatives are elected for periods of two years by Members from the representative's respective Unit. The Council annually selects one of its representatives as Chairman whose main role is to facilitate Council meetings.

As a quasi-governmental entity under State of Arizona statute(s), The Ranch at Prescott Homeowners Association, differs from other volunteer, business and social organizations in several important ways that include:

- Mandatory Association Membership. Each purchaser of Ranch property, by accepting a deed, becomes an Association member and submits to the authority of the Association and to the restriction upon the use of the property contained in the declaration of Covenants, Conditions and Restrictions (CC&Rs).
- Control over the Use and Enjoyment of Private Property. No entity, other than a state, local or national government, has the capacity and authority to regulate private property as does a homeowners/ community associations.
- Authority to Tax (Assess). Although an Association's Assessment of Members is not a tax, it has the same effect since such Assessment, like the local property tax, is backed-up by a lien right against property or unit.

Ranch at Prescott Homeowners Association's Purpose

A comprehensive description of purpose for The Ranch at Prescott Homeowners Association is provided by the Second Amended and Restated Declaration of Covenants, Conditions and Restrictions for the Ranch at Prescott, and in the By-Laws of The Ranch at Prescott Homeowners Association, an Arizona Corporation. Title companies typically provide these documents as a part of their due diligence in the lot/home purchase process so that the prospective property owner is fully aware of the restrictions on the use of the property. Access to copies of these and other of the Association governing documents is made available through the home page of this web-site or through a request to HOAMCO. New property owners and Association Members of long standing should take the time to become familiar with the content of the governing documents.

The roles and responsibilities of The Ranch at Prescott Homeowners Association continue to evolve as our planned community grows, both in terms of area and number of residences. As indicated earlier, the Association is now governed by an elected Council, but the day-to-day business and affairs of the Association are managed by HOAMCO, a professional homeowners association management company. Today the Association's main functions are as follow:

1. CC&R Enforcement. The CC&Rs noted above are extensive. They are in effect our property owners insurance policy that help to maintain and grow property values and enable residents to enjoy many of the other benefits of living in a planned community. The HOAMCO's Association Manager already receives more than 100 telephone calls and e-mails per month regarding CC&R

- enforcement issues. These are routinely dealt with on an individual basis in accordance with the remedies spelled out in the CC&Rs. None-the-less, CC&R enforcement is the most important and costly of duty of the Homeowners Association, consuming about 50 percent of its operating budget.
2. Enforcement of Architectural Standards. Today, the Developer has final authority in the establishment and maintenance of standards and decisions of the Architectural Committee. However, the final responsibility for compliance, including the cost of enforcement through litigation, remains with the Ranch at Prescott Homeowners Association. The management of any litigation is an important role the Association Council. Therefore, the potential for litigation is addressed in the Association operating budget by provision for legal fees and through the establishment of reserves.
 3. Maintenance of the Common Areas/Facilities. The Association does not own facilities such as a clubhouse or swimming pool. Therefore, the common areas are the main subject of maintenance. Maintenance of such common areas consists of weed abatement, dead tree removal and insect abatement in standing water. These functions, formerly carried out by the developer, are now contracted-out by the Association and consume about 10 percent of the Association operating budget.
 4. Communications. The Association and its governing Council are obligated to communicate many actions to Association Members. This communication has in the past taken place mainly through news letters, posting of minutes, specific mailings to owners and Association meetings and now includes a Ranch HOA web-site. The cost of these communications is borne by the Association and consumes about 20% of the Association operating budget.
 5. Insurance. The Association maintains and pays for general liability insurance to protect Members from claims arising out of the use of the common areas, e.g. the trails and tennis courts. This insurance is an item that consumes about 4 percent of the Association operating budget.

The cost of these functions of the Homeowners Association, and the need for increased reserves are the main reason, that the Association instituted its first ever \$125 Member annual Assessment in 2006. The annual operating budget of the Association in 2006 is \$92,500 and additions to reserves are budgeted at \$23,125.

In the future the Homeowners Association Council does not anticipated undertaking development of facilities, e.g. club house or pool and other such initiatives that could increase the current Member fees Assessments. The overwhelming majority of Association Members have reported to us that they enjoy the natural beauty and pleasant living environment of the Ranch. In many instance Member's say a major reason they came to the ranch was to avoid unchecked increases in Assessments that are associated with recreational facility development in many cases facilities that see little actual use.

The Representatives to Homeowners Council intend to observe the wishes of Members in their Units. Therefore, as we move forward, the activities of the Council will likely stay

focused on maintaining the environment of the Ranch by enforcement of the CC&Rs and architectural standards that are our insurance policy for maintaining and growing property values and providing a pleasant and enjoyable environment for our residents. However, to the extent that it will not increase Assessments, the Council intends to sponsor activities that benefit all and add to the enjoyment of living in The Ranch. This may include being a forum for idea exchange, a focal point for Homeowner communications, an advocate for productive communications with and actions toward our local governments.