

CAUGHLIN RANCH HOMEOWNERS ASSOCIATION
MINUTES OF THE BOARD OF DIRECTORS' MEETING
Wednesday, September 1, 2010, 7:00 P.M.

Board of Directors & Officers Present:

Millie Burke, President
Michael Chern, Vice President
Michael Heffner, Treasurer
Michele Attaway, Secretary
Gina Pedrini, Director
Ken Walters, Director

Others Present

Paul Hershey, General Manager
Lorrie Olson, CAM, AMI, Inc.
Linda Jussen, Administrative Assistant
Katrina Rehkop, Secretary
Randy Lisenby, Landscape Supervisor
Shawn Oliphant, Legal Counsel
Gayle Wassenberg, Recording Secretary

EXECUTIVE SESSION

Attorney-Client Privilege Per NRS 49.035 to 49.115

Legal counsel was not scheduled to attend this portion of the Board meeting, as there were no legal matters to be addressed at this time.

Update Personnel Session

No personnel issues were discussed.

Summary Log of CC&R Violations

Some violations were summarily discussed, with plans to address numerous issues in the near future, after Mr. Hershey has settled in; no action was taken at this time.

OPEN MEETING

The Board of Directors meeting was called to order by President and presiding officer, Millie Burke, at 7:00 P.M., at Caughlin Ranch Elementary School, 4885 Village Green Parkway, Reno NV. Director Burke thanked homeowners for their interest and participation at Board meetings. Director Burke welcomed Paul Hershey, Interim Manager, who is soon to receive his State of Nevada Manager's Certification, adding that the Board is very pleased with Mr. Hershey's enthusiasm and energy.

MEMBERSHIP OPEN FORUM – AGENDA ITEMS

Director Burke advised that at tonight's meeting, as in the past, homeowners will have a three-minute time limit for comments; however, at future meetings, the time allotted will be reduced to the two-minute rule as imposed by a former Board President, and as prescribed by NRS. Only agenda items may be addressed at this time. As the Board proceeds through the agenda, comments or questions are welcome.

A homeowner, who lives on Chapparral Dr. in Eastridge, noted this is his third attempt to request action on too many cars parked on his street rather than in driveways and garages and properties that need to be cleaned up. He noted that a specific neighbor, who is not a part of Caughlin Ranch, is the worst. His wife asked that Management resolve these problems. Director Burke promised that efforts will be made to address compliance violations, and the new manager will soon be checking the area.

A homeowner inquired as to whether AMI is currently citing homeowners for violations. Director Burke advised there have been some citations issued, but currently CRHA is in the transition mode while Mr. Hershey is in the process of attending classes, satisfying the fingerprinting requirement and FBI investigation process. When his permanent Nevada Certification is in place, the compliance violation process will ensue.

A homeowner asked about re-scheduling the outdoor social event that was recently rained out. Director Burke assured him that there will be community events scheduled in the near future and encouraged homeowners to attend those events to become better acquainted with personnel and the Board. She also invited homeowners to stop by the office to speak with Paul if they have questions or concerns.

A homeowner, who lives in the Cottages, referred to the recent fire in her neighborhood that burned two

homes. She thanked Paul Hershey and Director Burke for coming by the very next day to show their concern and willingness to help. Another owner in the Cottages noted that she has written to the Board regarding the sub-standard condition of certain properties in her area specifically on Waverly, where cars are leaking oil and some homes have peeling stucco and faded paint.

An owner complained that the cottonwood trees have left a flammable mess in his neighborhood. He also encouraged homeowners to bag their trash to prevent it from blowing in the wind. He and Director Burke complimented Randy for his crew's rapid response to the blowing-trash problem and asked him to pass along their gratitude to the crew.

PAUL HERSHEY DISCUSSES HIS QUALIFICATIONS AND BACKGROUND

Mr. Hershey briefly summarized his bio as follows: He was raised in Virginia, educated in North Carolina, spent 28 years in the Marine Corp., doing tours in Vietnam, Lebanon, Cambodia, Iraq, Kuwait, Afghanistan, and Somalia. He also spent time in and out of California. After his retirement, he built golf courses and played golf. He moved back east and worked as a project manager and general manager for a 3,000 home Club, where he did all of the horizontal construction including the infrastructure. The project included building a golf course and hotel. His involvement led to initiating the 1995 Water Rights Act in order to turn the golf course into a community course to obtain tax breaks, which allowed additional enhancements. This was where his community involvement began.

From there he moved to the Raleigh area where he managed a 5,000 unit Club through a major transition, paving 88 miles of roads, and obtaining nearly \$400,000 in federal grants to provide water in the development. This was accomplished in spite of experiencing a hurricane and an ice storm that left the development without electricity for 14 days. This led to his education in disaster control and disaster recovery.

Subsequently, he moved on to manage another community where the golf course was bankrupt and the Club was closed. During this venture, another disaster occurred. He successfully re-constituted this community with significant savings in tax breaks.

Mr. Hershey noted that when he visited Reno and saw Caughlin Ranch, he was excited about the thought of living in the area. Just prior to moving, he got married at 9:30 a.m.—the very day he boarded the plane bound for Reno. He introduced his wife, Cheryl, who has just relocated, and said they are very happy to be in Reno.

Director Burke noted that the Board is looking forward to Paul Hershey's direction in upgrading some of the internal controls that are currently in place. She advised that his management standards include giving a manager's report at every Board meeting so that the homeowners remain informed as to his direction and his accomplishments. He will begin tonight.

MANAGER'S REPORT

Update ARRA Restoration

Mr. Hershey is currently working on fire prevention plans for re-constituting and reclaiming the Hawkins Fire area—a project that will begin early in September, with the CRHA maintenance crew and under the direction of Kelley Erosion Control, Inc.

Report on Congested Area for Firearms

Mr. Hershey advised that Larry McNeil contacted the Sheriff's Department to request their help with additional posting of the boundaries of the Congested Area for the safety of residents and the public. He commended Captain Wayne Yarborough, Lt. Tim O'Connell, Lt. Stacey Hill, who were in attendance and Assistant Sheriff Marshall Anderson, who was unable to attend due to another commitment. Captain Yarborough advised that the Department took the approach that most people who have been shooting in the congested area are probably

not aware of the exact boundaries. So they posted the roads with signs and posted large maps at the entries to the areas, showing the boundaries. Capt. Yarborough noted that this project, which began with CRHA, has extended into other areas beyond Caughlin Ranch, such as Verdi and the North Areas, and the Sheriff's Office was able to complete the projects for less than \$500. Capt. Yarborough will be submitting to CRHA management, a weekly account of any problems in the area that have been reported, such as burglaries and vandalism. He encouraged homeowners to report any such activities to the Sheriff's Department. Relative to vandalism and graffiti, the Captain advised they have just charged a juvenile with 29 counts of graffiti. They are aggressively pursuing the problem, and they are requesting the public's assistance. Director Burke thanked Larry McNeil and the Sheriff's Department for their efforts.

Meeting with Staff Update

Mr. Hershey advised that he has applied for his temporary certification through the State of Nevada and has complied with all of the educational requirements for the State except for the portion pertaining to the Nevada Revised Statutes and is currently studying for that exam. When he first arrived, he met with his staff for about 2-1/2 hours and then continued to dialogue for the first few days regarding existing concerns.

Operational Update on Reserve Items Funds for 2010

Mr. Hershey explained the purpose of the Reserve Study and touched on the preparation process. The Budget and Finance Committee worked with the Reserve Specialist. One aspect of their process was that they used the "Monte Carlo method, wherein a plus or minus replacement value and a usage value is added to the component to allow for unexpected replacement or usage. The study showed that the Caughlin Ranch Reserve is being adequately funded. The result of the Reserve Study will be expanded upon during the Board Treasurer's presentation.

Update on Internal Controls and CC&R Compliance

Mr. Hershey noted he will continually be striving to enhance the internal control process in day to day operations. It has been determined that additional operational policies and procedures are needed and that CRHA currently does not have an adequate disaster recovery policy, as was discussed in the recent Strategic Planning meeting. A management program is being put together for what they want to accomplish in the next six to eighteen months in the areas of operations, finance, security and communications, and should be ready for Board approval within four to six weeks. Management will also be developing desktop procedures to raise the standards, using ISO9000, which is a technical specification to measure quality management and customer satisfaction. Mr. Hershey said that Management will be addressing all of the matters that have been brought before the Board this evening by the homeowners. A procedure is being developed to better serve the community by bringing more areas into compliance and raising the standard of excellence throughout Caughlin Ranch.

LANDSCAPE SUPERVISOR'S REPORT

Randy Lisenby reported that all shrubs have been pruned and fertilized. Day to day maintenance includes checking sprinklers in the common areas. A thousand bushes were just delivered. The crew is in the process of removing 40,000 square feet of sod (the Mayberry II and Castleridge areas have been cleared), and planting will begin tomorrow in Castleridge. The crew will be completing the Caughlin Club project, finishing up the walls and doing some landscaping. There will be overlay and seal coating on paths. There is more tree pruning to be done. He advised that the County will be doing work on the streets, and concrete repair work is taking place in Village Green Park. Director Heffner asked Randy to bring a slide of the new rock wall and wild flowers to the next meeting. Director Burke requested that he also provide "before and after" pictures of the water conservation project for the Annual Homeowners' meeting in November.

CONSENT AGENDA

Approval of July 7 Board Meeting Minutes - Members were reminded that the July 7 minutes can be picked up from the office or viewed on the website.

Report from August 19, 2010 Advisory Committee Meeting - Action items from the Committee's report have been submitted to Management, who will follow up on those items.

Approval of Amended Resolution for Paul Hershey's Signature and Authorization for Paul Hershey to Sign
This is simply an internal matter.

MOTION: Director Attaway made a motion, which was seconded, to approve the Consent Agenda items. Motion carried unanimously.

OTHER BUSINESS ITEMS

Report from the Water Conservation Committee

Mike Chern, Chairman, reported that he asked the Finance Committee to analyze the savings that could result from increasing the use of xeroscape to augment water conservation. They determined that xeroscape is a short term answer for immediate concerns and is starting to return some value, reflecting a \$40,000 savings in water last year. This process will be continued, but will not be enough. The committee has requested cost estimates for a pilot project in Village Green Park that is being developed by a vendor of computerized controls. They are hoping to receive the cost estimates in time for inclusion in the 2011 Budget. Additionally, exploration is being done with other vendors of high tech controls; data from TMWA has been provided to assist in the water usage study; and gray water irrigation and water rights information is being obtained. Director Chern has asked Paul Hershey to determine if this study can be continued by management or if a committee is essential. If Paul decides that the committee should continue, Director Chern recommends that the Board provide guidelines, direction, and goals and probably change the nature and size of the human component of the committee. He noted that the Finance Committee's analysis was incorporated in the budget preparation.

Update from the Finance and Budget Committee

Director Chern commended Director Heffner and those who assisted him for their analytical skills. Director Burke complimented Director Heffner for his leadership and the members of his committee for coming forward and offering their expertise, which will save the community a great deal of money. She noted that Caughlin has many residents with expertise in areas that could benefit the good of the Association and encouraged those residents to get involved.

Director Heffner introduced his committee: Director Walters, Director Burke, and four homeowners, Larry Morris, Joe Dowden, Wally Herkal and Larry Hinderks. He noted that the contribution to the committee from the homeowners has been substantial and models what homeowner involvement can do to help guide the Board's decisions.

Director Heffner explained how the committee got started and what they have accomplished to date: The approval to form the Committee took place in May; their first committee meeting was in June, where they undertook four issues:

- (1) to take a new look at the Caughlin Creek Water Reimbursement issue;
- (2) to take a brand new look at the dues question;
- (3) to give strategic guidance to the Water Conservation Committee, which was actually a recommended economic rate of return that the Association should strive to achieve for any investment made to save water usage, such as xeroscape, new technology, additional sources of water;
- (4) to acknowledge that the gap between Mike Trudell's departure and Paul Hershey's arrival has increased the challenge to meet the 2011 Budget deadline.

Leadership Responsibilities: Larry Morris, staff issues; Joe Dowden, landscape issues; Larry Hinderks, Reserve Study; Randy and Director Heffner, water history and rate history.

Budget Process. Director Heffner gave credit to Paul Hershey for taking ownership of the budget process when he had only been in Reno for a few days—all the while working with Randy, Katrina and Linda while attending class eight hours a day. He added that now that Paul is heavily involved with the budget process, it is time for the Finance and Budget Committee to delve into the macro issues such as five-year planning, internal controls, investment policy, risk analysis and insurance. At the meeting after next, Director Heffner plans to discuss the projects that the Committee will undertake.

Dues Assessments. Director Heffner advised they took a new look at the dues question, which has been a hotly debated issue for 15-20 years—even though they had been cautioned not to open the issue. They optimistically felt that with a fresh approach, they might be able to draw an enduring conclusion once and for all.

Larry Morris reported as follows:

The Subcommittee that studied the dues issue, Mike Heffner, Joe Dowden, and Larry Morris, put together a considerable amount of data from the last twenty years to determine whether a problem exists with the dues structure. Using the five existing dues classifications (herein referred to as ABCD&E), as formulated by the developer, along with data reflecting expenditures that have benefited each of the five neighborhoods, they summarized the equitability of the dues structure. They determined that BC&D are within 5% of each other for the ratio of “dues collected” to “expenditures.” Class E is almost non-consequential due to the fact that there are only 18 homes in that category. Surprisingly, in the case of Class A (1,599 homes), the costs exceed the assessments by \$168 per month, resulting in a budget shortfall that is being subsidized by the remaining 569 homes.

The committee then requested a legal opinion regarding the CC&R amendment process. Legal counsel advised that approval to amend the CC&Rs would require a “yes” vote from 70% of the homeowners and that the fee structures established in 1988 and 1998 were done legally. It was felt that since 74% of Caughlin Ranch is represented by Class A, approval for a dues increase would not be obtained.

It is, therefore, the recommendation of the committee that this matter be put to rest, since even if the majority vote was satisfied--which is unlikely--an equitable change in the dues structure would not be significant enough to justify the time and legal expense involved. Director Heffner noted that this was a very complicated study, and in the interest of time, he suggested that either he or Larry can be contacted by e-mail to answer any questions.

MOTION: Director Heffner made a motion, which was seconded, that the Board accept the conclusions and the recommendation from the study that was forwarded on July 28 and that the report be attached to the minutes of this meeting so that it will be a reference document for future generations in Caughlin Ranch. Motion carried unanimously.

Director Heffner thanked Larry for his presentation; he thanked Joe, who participated in this analysis and Shawn Oliphant, without whose legal analysis, a conclusion would not have been possible.

Management Transition Costs. Director Heffner advised that two homeowners have requested that the Board address costs incurred in the transition from the prior administration to the current administration. He explained the NRS requirement to hire a certified community manager during the transition and advised that AMI has been a valuable resource in helping with procedures, CC&R violations, etc. in the past two months. On behalf of the Board and the homeowners, he thanked Lorrie Olson and AMI for their assistance.

Question 1 – What was the cost of the transition?

Bringing four people to Reno for interviews	\$1,700
Incoming Manager's moving allowance	3,000
One-month temporary residence rental	6,342
Retention of interim management company	10,000
Attorney's fees	5,700
Severance to Mike Trudell	36,000
New manager's salary through 2010	<u>40,000</u>
Subtotal through the end of 2010	102,742
Minus what would have been spent w/o the transition	<u>(65,922)</u>
Cost of Transition	\$36,820

Question 2 – How much of that cost can we expect to recoup?

Director Heffner explained that they considered what Mike Trudell's 2011 salary would have been (including CRHAs pension contribution, healthcare premiums and 3% yearly escalation for inflation). The Manager's salary plus benefits for the next five years (had there not been a transition) would have been \$720,000. Salary and benefits for that period for Paul Hershey would be \$514,986. Over the next five years, approximately \$200,000 will be saved. Next year, alone, the savings will reflect 105% of the extra costs incurred this year. He further explained that Paul, as a retired Marine, receives government-paid health insurance for life—a \$12,000 per year savings for CRHA.

Paul Hershey requested the opportunity to address a series of questions that have been asked by a number of homeowners—whether he knew anyone in Reno, was previously acquainted with any Board member, or had any friends in the area. “As defined in NRS 116, I am stating for the record that I do not have a conflict of interest here, I do not know anybody here, nor did I know anybody here when I interviewed for this position, and I am not related to anybody.”

2010 Budget Report through June 30, 2010

In the interest of time, Director Heffner chose to defer a detailed discussion of the Reserve Budget until the next meeting.

Paul Hershey requested the Board's approval of the June 30, 2010 Budget Report. Director Burke asked if there were any questions. Director Heffner commented that as of June 30, we are approximately \$80,000 under budget for operations. Director Burke asked about the possibility of getting a budget projection to year end. Director Heffner advised that for the first time in CRHA history, management will provide a forecast to the end of the year, to compare, quarterly, to the 2011 budget. Paul Hershey and the Board answered homeowners' questions relative to water usage and costs, and the budget in general.

MOTION: Director Pedrini made a motion, which was seconded, to approve the June 30 Budget Report. Motion carried unanimously.

Approval of the Western Architectural Reserve Study Specialist Report

Director Heffner advised that the Reserve Study is complete and is available at the office for homeowners to review; he encouraged homeowners to do so. He suggested that in the interest of time, it be presented for approval at the next Board meeting.

Update from the Employee Benefits Committee

Paul Hershey noted the committee was very active and did their due diligence on this issue. He requested that the Board consider his recommendations as follows:

- (1) Change the retirement plan to a simple IRA, beginning January 1, 2011, capped at a 3% match. (currently 10%.) The savings to the Association would be in excess of \$25,000 per year.
- (2) Change in medical benefits to bring them closer to the national standard: Currently the deductible is \$250/year; we recommend raising that to \$1,500/year and changing the provider from Hometown Health to Principal. These two changes would result in a savings of \$2,200/month, effective November 1, 2010.

A homeowner expressed his opinion that the \$1,500 deductible increase is too high. Director Attaway reminded him that the employees' health insurance premiums are paid 100% by the HOA for employees and 50% for dependents. A member of the committee asked that the homeowners be advised of what the committee recommended and that their report be attached to the minutes. The Committee member and Director Attaway discussed the differences between what the committee originally recommended and what Paul Hershey recommended after he researched national averages and carrier options. Director Attaway said the committee felt that at this time it would be less of a hardship to decrease the IRA from a 10% flat employer contribution (not a 10% *match*) to a maximum 3% match than to eliminate dependent medical coverage, which was another option for decreasing costs. Director Heffner noted that changes in benefits were discussed at the Strategic Planning session, and he feels that the Board has attempted to find a reasonable compromise between the lowest possible cost to the homeowners, balanced with some sensitivity and fairness to the employees, who will have no bonus, no raise, a cut in their pension plan, and an increase in their medical deductible. Director Heffner said he respects the view that perhaps the recommended changes are too extreme, and suggested that in the future the matter may have to be revisited.

MOTION: Director Attaway made a motion, which was seconded, to change the 2011 Budget compensation contribution from the current plan to a simple IRA with a maximum 3% match. Motion carried unanimously.

MOTION: Director Attaway made a motion, which was seconded, to continue the employee health insurance at 100% reimbursement for the employee and 50% for dependents; that the deductible be increased from \$250 to \$1,500 per year, and that the carrier be changed from Hometown Health to Principle, effective November 1, 2010. The motion carried by majority. Director Heffner was opposed.

Director Attaway thanked the committee for the countless hours spent researching this matter. Director Heffner asked Paul Hershey to clarify the savings to the Association that will result from the approved changes. Mr. Hershey said the savings would be approximately \$50,000 per year.

2011 Draft Budget

Paul Hershey credited the Budget Committee for the input he received as a result of their efforts, and reported as follows: The budget process is continuing, with another workshop scheduled for Sept. 15. There are areas that are still being scrutinized for beneficial changes, such as criteria that could move some expenses into the Reserve side once the Reserve Study is approved by the Board. The spread sheet reflects that the 2010 Budget shows a deficit, which they will attempt to rectify. Director Heffner asked about the irrigation reimbursement that was paid from Caughlin Creek to Caughlin Ranch, which, in the past was treated as "income." He would like to consider showing it as a credit against irrigation expense. He also asked about the possibility that equipment maintenance and irrigation repairs be considered Reserve items, since maintenance of these items, in effect, is "sustaining and extending the life of the equipment," which meets the definition of a Reserve expense. Verification is under consideration by the CPA and the Auditors. This would be of benefit to CRHA because presently there are surplus funds in the Reserve account.

Questions arose relative to unpaid assessments. Lorrie Olson, AMI, answered homeowners' questions

regarding the collectability of unpaid assessments in the event of foreclosures and bankruptcies. Director Heffner noted that on the advice of our accountants, CRHA wrote off \$25,000 in bad debt in 2009 (which does not mean that it cannot be collected in the future). Unpaid fines are uncollectable in the event of a foreclosure.

Update on the Village Green Park Tennis Courts

In the recent past, there was a controversy over whether or not private tennis lessons should be allowed at Village Green. That situation was addressed at the July 7 Board meeting, wherein the matter was resolved with Glenn Grisillo agreeing to give lessons only during certain hours on certain days so as not to interfere with court availability to homeowners. He has offered an additional compromise in which he will not use the tennis courts from 8:00 a.m. to 11:00 a.m. instead of 9:00 a.m. to 11:00 a.m. on weekends and Tuesday mornings. He will continue to avoid Wednesdays, altogether. This information is offered to membership by inclusion in these minutes.

A homeowner asked if our attorney could respond to whether there may be a liability risk in giving a tennis instructor exclusive rights to the use of the courts for lessons. Shawn Oliphant, legal counsel, advised that he has not been asked to look into liability risks. He added that it is his understanding that Village Green is a public park and is being used in that way, and nothing has been acted upon to grant a specific instructor any specific times. The homeowner questioned the approval of specific hours for teaching. Director Burke noted that the hours were proposed by the professional—there was no Board approval involved. Director Pedrini noted that there is no agreement with Glenn Grisillo; as a member of the public, he is entitled to use the courts. She advised that she previously discussed the matter with Mike Trudell, who said that homeowners have the right to have their kids take lessons there, and we carry liability insurance. Director Burke advised that the court rules and time limits are posted and the lesson times are noted in the July 7 minutes.

Homeowner Complaint Letter

A homeowner requested that his letter to the Caughlin Ranch Board of Directors, dated August 3, 2010, be placed on the Board meeting agenda. Shawn Oliphant, legal counsel, advised that “a letter was received from a homeowner, asserting that Mike Trudell’s termination agreement, the AMI contract and Mr. Hershey’s contract were not discussed in open meetings by the Board. The homeowner requested that it be placed on the agenda, so it is. The homeowner also requested that a written response be provided prior to this meeting. I did provide a written response to the homeowner and asked for a follow up meeting with the owner if he had any more questions; otherwise, it would be determined that the written response would suffice. I have received no follow up, no further questions, and no request to meet with me as I had suggested. So, I am assuming that item is closed.”

MEMBERS’ COMMENTS – ANY TOPIC

The homeowner who authored the above-mentioned letter complained (1) that agenda items, as they appear on the agenda, do not clearly explain the nature of the topics; (2) that he has asked for Trudell’s termination agreement, AMI’s contract, Paul Hershey’s contract, and minutes of the Executive Sessions; (3) that he has not received the contracts and was told there are no Executive Session minutes (even though NRS says *you have to have them*). The homeowner was advised that he had gone beyond the three minutes allotted for his comments, but could continue at the September 15 meeting if he so chooses. He continued, saying he had written to the Board and wanted to know why Mr. Oliphant responded instead of the Board. Mr. Oliphant replied “you were raising legal issues, and I was asked to respond.” A Board member asked legal counsel if it would be possible for him to briefly explain the nature of his written response. Mr. Oliphant advised that discussion regarding “Executive Session Minutes” will be on the agenda in the near future, and will be addressed at that time. Legal counsel further advised that the contracts were discussed in open meetings.

A homeowner asked if the manager from AMI would be able to say what AMI pays for medical insurance coverage for the purpose of comparison. Director Attaway advised that AMI is owned by Associa, which is a

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large nationwide company with many employees, that can afford to offer a cafeteria plan, which allows employees to choose their insurance on an individual basis. There were no further comments.

ADJOURNMENT

With all agenda items addressed, the meeting adjourned at 9:35 P.M.

Respectfully submitted by:
Gayle Wassenberg, Recording Secretary
Transcends Transcription Services

Approved by:

Caughlin Ranch Board Member