

MASTER ASSOCIATION ANNUAL REPORT 2011



A Legacy of Leadership

The Desert Mountain Master Association has been member-run for 10 years now. Much has been accomplished since 2002 under the leadership of these gentlemen who generously and graciously volunteered their time to establish – then fine tune and enhance – the role of the Master Association and the many services it provides to Desert Mountain owners. Their tireless and dedicated work has served as a strong foundation for bringing the HOA where it is today.



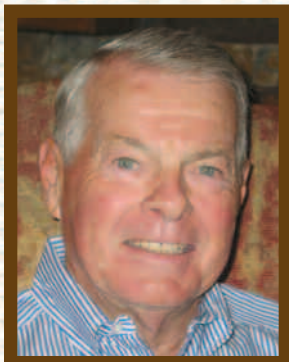
Ted Hopkins, 2002:

I am proud of the more than 50 homeowners who volunteered to serve on the early committees the Master Board used to establish oversight for the HOA Office. Since the HOA was holding title and providing maintenance for roads and common area landscaping, it turned out to be a very big task to bring our records up to date, review our policies, and get our arms around homeowner governance. We posted agendas for our quarterly meetings on the village bulletin boards. We supported self-nominations for Board elections and implemented voluntary term limits. I am very proud of the breadth of inputs and comprehensive due diligence that so many members contributed in our first years.



Roger Greaves, 2003:

Having been elected to the first member board gave me the opportunity to continue Ted Hopkins' great start. We solidified a strong committee structure, involving more member talent in the governing process and establishing a pool of potential board members. We established, along with a strong board and Community Manager Bill Overton, the healthy reserving process we follow today. At the end of my tenure, Bill Overton and I created the Long Range Planning Process. Though the timing was a little early, Rick Harrington and Bob Borsch took parts of our template and made a solid planning process that will stand us in good stead for decades to come.



Jim Dellaripa, 2004:

During my tenure, I structured the Blue Ribbon Security Committee that worked with the Scottsdale and Phoenix Police and FBI to resolve issues occurring during that period. The Emergency Action Plan was finalized and implemented. Its purpose was dealing with fire threats and evacuation protocols, which were used during both the 2004 and 2005 fires. Finally, I worked with the Access Committee, which studied ways to improve security and gate access service; the present e-Go Tag System resulted from that Committee's work.



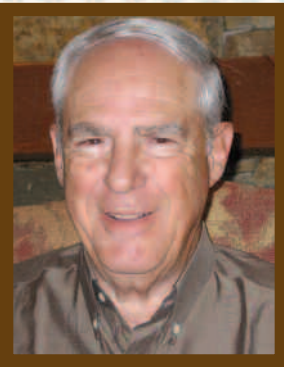
John J. Ranslem, 2005:

My proudest accomplishments were the significant roles I played with the teams that selected DLC as our Landscape Contractor, and Anderson as our Security Contractor. Both were relatively small and represented a risk, but we made the right choices. We also developed our first Mission/Vision/Values statement to give guidance in making decisions. In 2005, we introduced our e-Go Tag System, which replaced the white cards. What I am proud of is how the Board reacted immediately when there was an unintended consequence, i.e., a long line to get in the Desert Hills gate on the first day of implementation. Some of the members may remember.



David Jennings, 2006:

I am very proud of the internal financial analysis we performed in all areas, specifically, the Reserve Study, which was re-worked to ensure future maintenance funding. The Vision, Mission and Values Statement established by John Ranslem served us so well that we agreed to continue to work under its philosophical umbrella to continue to make Desert Mountain “the best planned residential community in the world.”



Norm Jacobs, 2007:

I am most proud of trying to strengthen the tradition of collegial management by the entire board in which ideas would be offered and decisions made through open discussion, then implemented by staff. My goal was to emphasize efficient, effective operations and cost containment in the face of a deteriorating economy. We implemented the new reader access system, making all Desert Mountain accessible to residents 24-7, rather than only their own villages, thereby fostering a broader sense of community as well as convenience.



Al Smith, 2008:

I helped establish that the total community was responsible for all washes and culverts, not just the villages they were located in and worked with Bruce Spilka and DLC, our landscape vendor, to identify every culvert in Desert Mountain and establish a plan to maintain them on a regular basis. A book at the HOA office identifies each culvert with a picture and a maintenance plan based on current information. A budgeted amount of money is approved each year to ensure all culverts and washes are maintained in proper working order to ensure trouble-free conditions for the community.



Rick Harrington, 2009:

There are two accomplishments of the DMMA Board during my tenure that stand out in my mind. The first is navigating the economic downturn in a way that left the HOA in a sound financial position with improved processes and services. The second was initiation of the Community Business Model Project with the Advisory Board to research best practices and issues faced by other fine golf communities around the country. I believe those learnings will have a positive impact on both the Club and the HOA for many years to come.



Bob Borsch, 2010-2011:

In 10 years, Desert Mountain has transitioned from being developer-controlled to being owner-run and member-owned. It has remained strong in a stagnant economy and through difficult times. I'm proud that our community has a plan, that we know which roads we are choosing and why. So, the projects accomplished over the last 10 years and those planned for in 2012 didn't happen by accident; they happened through the vision, will and expertise of my predecessors and previous Boards of Directors, as well as the management teams of the HOA and Club, who, in many cases, worked closely together to make them happen.

Taking the “Can Do” Road to Sustainability

By: Bob Borsch, President, Desert Mountain Master Association

Why do we create this report? First, the property owners who pay the bills deserve an accounting of how we performed on your behalf in 2011 – a report card if you will – on what your elected Master and Village Boards, and the staff got done. Second, we want you to know how we see 2012 shaping up, because our Strategic Plan and 2012 Budget is now in effect, and you should know what we are focusing on in the new year. Finally, and maybe most importantly, we want you to see how we think about the Desert Mountain Community: what we aspire to be and how we plan on getting there, because it permeates all we do.

It’s been said that if you don’t know where you are going, any road will do. But what lies at the end of many of those roads these days, for many communities, is not good. I was recently privileged to be a speaker at a program in Palm Springs, aptly named “Can Second Home Communities Survive?” World-class experts spoke on relevant topics like the real estate economy, shifting demographics and preferences impacting the future second home buyer pool, and the future of traditional country clubs as golf rounds continue to fall. It must have been an important question as we had a packed house of more than 200 attendees, including community leaders, real estate organizations, developers, bankers, and club managers. Much of the news was tough medicine.

But, guess what? We don’t have to take this lying down. We can take control of our destiny and DO something about it. Like a best practices tour of top communities to chart a better future... members coming together to buy the Club and make it the finest private golf community in the world... a new dog park that people love... a new state-of-the-art golf training facility... a new world class trails system inside our own community... a Seniors PGA golf tournament that will put the Desert Mountain name back on the map where it belongs. There are several other good ideas on the drawing board, as well, that we are pricing out and getting input from members.

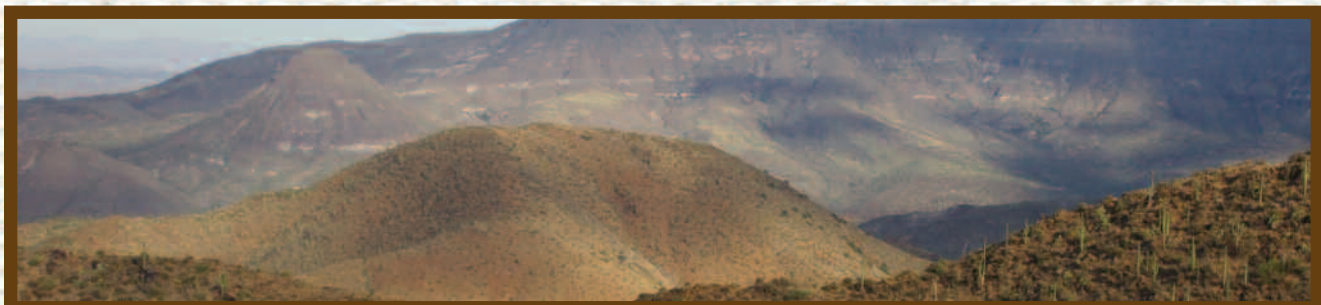
And here’s the good part: we are living in a community that has a plan. We know what roads we are choosing and why. Our road is not the “sit back and do nothing road,” because that leads to unsustainability. Ours is the “can do road,” grabbing control of our destiny and never wavering. So the projects we accomplished in 2011 (and are planning for in 2012) didn’t happen by accident; they happened through the vision, will and expertise of Boards and management teams of the HOA and Club, in many cases, working closely together to make them happen. Our road is a continuum, because we will always be in renewal to stay relevant to future generations of Desert Mountain residents, as the next changes come along. Isn’t this the kind of community you want to be in? Safe, secure and beautiful with a growing array of services and amenities for our community members? Already great but never backing off from making it even better? Growing in value and desirability all the while?

In this report is a presentation of the HOA Strategic Plan and an article that talks about how we use it to guide our decisions and actions. That’s the roadmap we’re talking about. Many of you have seen it at our meetings and presentations. But take another look in the context of what you have just read. We think it will give you confidence that you came to right place.

A Look Back at 2011

In 2011, the Desert Mountain Master Board established several ambitious goals to accomplish. While the scope of those goals was daunting, the Master Board – with valuable assistance from many volunteers, committee members and the HOA staff – successfully fulfilled its 2011 Mission to enhance the beauty and governance of Desert Mountain and to provide services that its owners would value. Key 2011 Master Association goals included:

- ▲ ***Developing a Trail System:*** The first trail in this proposed system – the three-mile loop Sunset Summit Trail – was opened with much fanfare on November 4, 2011. Now, the hope is to develop up to 15 more miles of trails and amenities on the Northern Properties through the recently developed Trails Master Plan and the generous contributions we are receiving from Desert Mountain residents and members.
- ▲ ***Launching the Owner Services Business:*** The goal with this new offering is for Desert Mountain homeowners to trust the HOA with their absentee home care and light handyman needs. In business for only three months, the Owner Services Business is profitable and has received positive feedback from residents on quality and timeliness of services provided, as well as on service pricing.
- ▲ ***Improving Communications:*** In an effort to improve understanding and transparency between the Association and Desert Mountain owners, the Association set out to improve communications in 2011 with the launch of *The Desert Mountain Connection* magazine, print and production costs of which are paid entirely through advertising. The re-designed HOA website, www.desert-mountain-hoa.com, is updated regularly with important Master Board news and announcements, and contains information on topics ranging from the Desert Mountain Trails and landscaping tips to everything you need to know about Design Review in Desert Mountain.
- ▲ ***Revising and Upgrading the CC&Rs:*** The revised CC&Rs were overwhelmingly approved by the community this summer, with more than 1,300 owners voting “yes” to approve this document. These new documents include substantial improvements, greatly enhance the governance of the Master Association, and will serve the community well for years to come.
- ▲ ***Revising the Design Guidelines:*** The revised Master Design Guidelines greatly streamline the overall Design Review process and have been vastly simplified so they are easy to follow and understand. These changes not only make it easier for Desert Mountain homeowners, their delegates and the Design Review Committee and staff to work together on new constructions and requested modifications, they also help shorten the Design Review process, which further enhances the exceptional level of customer service currently provided.



A LOOK AHEAD TO 2012 (and Beyond)

With the work of 2011 serving as a strong foundation, the Master Association looks forward to building for the future in 2012 and beyond with its Strategic Plan. This Strategic Plan covers the Master Association's long range plans for the next three years and describes the Vision, Mission and Strategies of the HOA, as well as the projects that will help fulfill them.

The Master Association's Vision and Mission

The Vision and Mission created for the Master Association serve as guiding principles for the Strategic Plan and can be seen on the tables pictured below and on the following page. The Master Association's Vision Statement describes what the Association aspires to be, while the Mission Statement defines the operating objectives, principles and values of the Master Association in a way that guides its decisions and actions day-to-day.

You'll note that the following key words are highlighted in the Vision Statement: "financially sound," "safe and secure," "beautifully maintained," "innovative amenities and services," "enhance the lifestyle" and "create strong demand." Everything the Master Association will undertake, project-wise, will support this Vision, as those projects will help take the Association where it wants to be in the future. The attributes mentioned on the Mission Statement – "convenience and peace-of-mind," "vibrant and sustainable," "increasing home and property values" – will be realized with the projects initiated by the Master Board over the next three years and will help make Desert Mountain attractive to future owners.

DESERT MOUNTAIN HOA Vision Statement

Desert Mountain is one of the world's most vibrant private communities: **financially sound, safe and secure.** It is **beautifully maintained**, with **innovative amenities and services** that **enhance the lifestyle** of its residents and **create strong demand** by new owners

Strategies and Projects Support the Vision and Mission

With an established Vision and Mission, the Master Association has the direction it needs to implement projects and goals that support its strategies for the next three years. For example, as you will see in the table pictured to the right, in 2011, upgrading the community's street signage and enforcing the posted speed limits supports the Master Association's strategy of **keeping owners and others in the community safe**. A community-wide perimeter and security upgrade being evaluated will help **keep Desert Mountain secure**. Enhancing the appearance of common areas and Village entrances and upgrading the Desert Mountain Design Guidelines **keeps the community's homes and public areas beautiful**. The recently launched Desert Mountain Owners Services Business **provides services and support to our property owners**. The new Desert Mountain Trails and planned trail system enable the Master Association to **provide amenities that are distinct and complementary to Club offerings**.

Planning for the Future

While many of these projects are still in their infancy, they will continue to be developed and enhanced over time. They will also be implemented with an eye towards fiscal responsibility so that

Desert Mountain owners realize the most value from the projects and services executed on their behalf. It is the Master Association's hope that the services offered through the Owners Services Business will expand based on the needs and interests of both Desert Mountain residents and the Villages. The Association also hopes to develop more trails and other amenities in concert with the Club on the Northern Properties so Desert Mountain residents can enjoy a variety of outdoor pursuits virtually in their own backyards. The Association is also looking into the development of a Desert Mountain Community Foundation and the use of 501(c)3s to aid with fundraising efforts.

So how do these and other projects under consideration impact Desert Mountain residents? With a Vision and Mission, goals and initiatives that support the Association's strategies going forward, and time and proper financial planning, the Master Association can successfully continue to do its part in keeping Desert Mountain the best residential golf community in the world.

DESERT MOUNTAIN HOA Mission Statement

To keep Desert Mountain *safe, secure and beautiful*, and to *offer services* to the community that provide *convenience and peace of mind*. *Work harmoniously* with the Club to develop *complementary amenities* that will keep the community *vibrant and sustainable*, *increasing home and property values*.

Strategic Plan Overview



THE DESERT MOUNTAIN OWNER SERVICES BUSINESS

Quality Handyman, Home Care and Village Maintenance Services

In October of 2011, the Desert Mountain Master Association launched the Owners Services Business (OSB), offering light handyman and home care taking services to Desert Mountain owners. Operational for just three months, the Desert Mountain Owner Services Business has received rave reviews on the quality and timeliness of the services it provides, as well as its cost-effectiveness and convenience.

The **Light Handyman Services** provided through the Owners Services Business run the gamut from changing smoke alarm batteries and air filters to light “fix-it” services such as electrical, carpentry and plumbing work. If the repair required is beyond the scope of services the OSB provides, then OSB staff will suggest professional tradesmen for your consideration and will even meet the tradesman at your home to discuss and review the repair, and will meet with you after the repair is finished to ensure it was completed to your satisfaction.

The Owner Services Business also provides **Home Care Taking Services**, which means that on-site supervised Desert Mountain employees take care of your Desert Mountain home when you are off property. Homes are checked to ensure that landscape, pool and spa maintenance services are being performed, trash and recycling cans are properly stored and that newspapers and packages are not left at the front door. Inside the home, household appliances and smoke alarm batteries are inspected, water is run through sinks, toilets are flushed, and sewer and gas lines are checked.

In addition to the services provided to Desert Mountain homeowners, the Owner Services Business also performs necessary **Village Maintenance Services** throughout the community, including monument painting, garage and front door wood staining, and gate maintenance. “In-sourcing” these projects results in higher quality, less wait time and sound and competitive cost management for Desert Mountain owners.

The entire Owner Services Business concept was one of the lessons learned from visits to other similar high-end residential golf communities around the United States in 2010. These communities currently provide handyman and home caretaking services (for a separate fee) to their owners and are profitable doing so. It is the intent of the Desert Mountain Owner Services Business to provide these services and be similarly profitable, as well; start-up costs were kept to a minimum at launch (less than \$7,500) and the Owner Services Business began January of 2012 operating in the black.

The helpful, professional, convenient and cost-effective services provided by the Desert Mountain Owner Services Business are designed to help Desert Mountain owners relax when they’re not home and enjoy the time they are. If you would like to learn more about the Owner Services Business, please call 480-595-4010.





Building the Desert Mountain Trail System One Step at a Time

On November 4, 2011, the Desert Mountain Master Association opened the Sunset Summit Trail, the first of five trails planned for the brand new Desert Mountain Trail System. Since then, word has spread throughout Desert Mountain about this exciting new amenity: on any given day, there are many Desert Mountain residents enjoying the Sunset Summit Trail and the magnificent views it provides.

With that success as a backdrop, the goal now is to build even more trails on the Northern Properties. It is our hope that this will be accomplished primarily through sponsorships received from the Desert Mountain community. While almost \$50,000 has been received in sponsorships thus far, there is still quite a bit of fundraising to do for future trail development. This is where you can help.

Imagine being able to take in breathtaking views while enjoying a picnic at sunset at the Trailhead... or being able to show your grandchildren the bench you sponsored in their names on a trail...or being able to sponsor a trail in memory of a loved one and see that sponsorship memorialized on the Desert Mountain Trail System Donor's Wall?

All of this is possible – and can be completed more quickly than you might have thought possible – with a single contribution of just \$300 from each member of the Desert Mountain Master Association. That small, single contribution would result in a grand total of \$720,000 that could not only go to the development of the entire trail system, but also towards the building of shade structures, benches, and other amenities that everyone – both current and future members of the Desert Mountain community – will enjoy.

This new amenity will help Desert Mountain remain on its path of being a sustainable and vibrant community that continues to attract new owners and members. Interestingly, there are several trends impacting second-home golf communities right now that having a Desert Mountain Trail System helps address...

- ▲ **Increased Interest in Fitness:** As they adopt healthier lifestyles, home buyers are looking at a wide range of fitness techniques (imagine working out on a hiking trail rather than on a treadmill);
- ▲ **Popularity of Non-Golf Activities:** Home buyers are interested in alternatives to golf for the non-golfers in their families and among their guests; and
- ▲ **Non-Traditional Services and Amenities:** A 15-mile trail system located right on property will certainly help attract and entice new home buyers interested in outdoor pursuits to the Desert Mountain community.

There is much talk these days in second home golf communities about sustainability and differentiation. Having a hiking system on property not only helps Desert Mountain remain exciting and interesting for current residents, but it also makes this community appealing and attractive to prospective residents who are looking for something new and different in the next (and hopefully last) place they call home.

For more information on how you can help contribute to the development of the Desert Mountain Trail System, please contact Bob Borsch at abborsch@yahoo.com, Troy Gillenwater at paleostone@aol.com or Ann Melsheimer at mattann@cox.net.



Desert Mountain Master Association: Balance Sheet – Operating (Un-Audited)

December 31, 2011

ASSETS		
Cash	\$ 1,794,242	
Accounts Receivable	524,273	
Other Assets	<u>70,772</u>	
Total Assets		\$2,389,287

LIABILITIES AND FUND BALANCE		
Current Liabilities	\$ 1,629,183	
Other Liabilities	54,880	
Fund Balance	<u>705,224</u>	
Total Liabilities and Fund Balance		\$ 2,389,287

Desert Mountain Master Association: Income Statement – Operating (Un-Audited)

For the 12 months ending December 31, 2011

REVENUES		
Owners Dues	\$ 2,768,146	
Other Revenue	58,222	
Design Review, Access, Misc.	450,686	
Less: Bad Debt	<u>(67,473)</u>	
Total Operating Revenues		\$ 3,209,581

OPERATING EXPENSES		
Administration (Staff, Management Fees, Rent)	\$ 1,120,475	
Operations (Landscape Maintenance and Replacement, Guard Service, Street Sweeping, Repairs/Maintenance, Utilities, Communications, Legal/Consulting)	1,701,173	
Taxes, Insurance, Other	<u>48,693</u>	
Total Operating Expenses		\$ 2,870,341

RESERVE CONTRIBUTIONS		\$ 426,686
2011 EXCESS REVENUE OVER EXPENSES		(\$ 87,446)

Financial Report

Ann Melsheimer, Treasurer, Desert Mountain Master Association

The Master Association budget runs a bit over \$3 million, but did you know that's only part of the story? Desert Mountain is comprised of the Master Association and 27 villages. Each village pays its fair share of landscape maintenance, security costs, and reserves. The first two expenses are allocated out to the villages based on each village's road footage as a percent of the total road footage. That means that a large village like Saguaro Forest pays a higher proportion of the overall landscape and security costs than a smaller village, such as Deer Run. Reserves are managed at two levels: at the Master level to maintain roads it is responsible for (e.g., Desert Mountain Parkway); and at the Village level so that each individual village maintains its own roads.

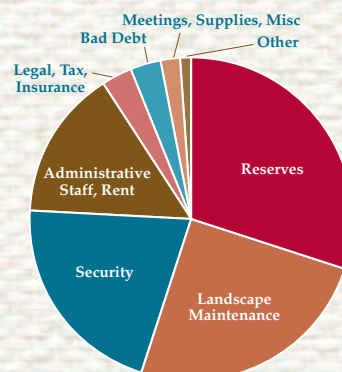
There are also some expenses that are not allocated out at all, the rationale being that these expenses are for the good of the entire community. Two great examples of these non-allocated expenses are drainage system maintenance and administrative expenses.

What does this all mean? On a combined basis, the TOTAL budget (with the allocations dealt with) for all entities of the Desert Mountain Homeowners Association is just shy of \$8 million.

- ▲ Our single biggest expenditure, **30% of our budget**, is for reserves! Between the Master Association and the villages, we're saving \$2.4 million annually for future maintenance needs... mostly roads, but other stuff as well, such as mailbox replacements and capital expenditures.
- ▲ Our second biggest expenditure, or **25% of the budget**, is for landscape maintenance and related items, such as drainage system maintenance. We spend about \$2 million a year on landscaping, drainage system maintenance, and other operational physical maintenance, but I sure think it's worth it.
- ▲ Our third biggest expenditure is for security. We spend \$1.7 million, or **21% of the budget**, on a really outstanding security force. According to the Scottsdale Fire Department, we are 40% more likely to survive a heart attack at Desert Mountain because of the training that is provided to our security team. That's really impressive!
- ▲ Our last large expenditure is for administrative staff and rent. We spend \$1.2 million on these items. In the industry, the "norm" is for an Association to pay about 20% of its total budget on administrative costs... we pay about 15%!
- ▲ Finally, that leaves about \$0.7 million. That's for miscellaneous items such as legal fees, tax preparation, supplies, bad debt, etc. That all adds up about 10% of the budget.

Yes, \$8 million is a lot, but I think we get a lot of value! It is always said that pictures paint a thousand words... how about this picture below?

2012 Combined Entities Budget Analysis	Total Revenue:	\$7.99M
	Expenses:	
	Reserves:	30%
	Landscape/Maintenance:	25%
	Security:	21%
	Admin Staff/Rent:	15%
	Legal/Tax/Ins:	3%
	Bad Debt:	3%
	Mtgs/Supplies/Misc:	2%
	Other:	1%



***2011 Desert Mountain
Master Board of Directors***

Bob Borsch, *President*

John Gevlin, *Vice President*

Harley Wood, *Vice President*

Ann Melsheimer, *Treasurer*

Bill Dorr, *Director*

Ray Herzog, *Director*

Ron Matricaria, *Director*

Wayne Safka, *Director*

Jack Swonson, *Director*

2011 Council of Presidents

Apache Cottages: Robert Colonna

Apache Peak: Ann Melsheimer

Arrowhead: Patricia Kolander

Cochise Ridge: Margery Jenkins

Gambel Quail, Sunrise and Eagle Feather:

Charles Geer

Grey Fox: Thomas Clark

Lookout Ridge: Pia Garoian

Mountain Skyline: Doug Besemer

Rose Quartz: Lee Garcia

Saguaro Forest: Roger Greaves

Sonoran Cottages: Troy Gillenwater

Sonoran Ridge: Larry Niederhofer

Turquoise Ridge: Stanley Paulsen

