

BCLHOA Board meeting minutes
June 13, 2020 1:00 pm
480 N. Big Als Run (Glaunsinger Residence)

Meeting was called to order at 1:05 pm: All Board members present or by FaceTime

I. The Feb. 2020 executive meeting minutes were approved (Motion by Tim, second Pat)

II. Financial Report - Pat Nagy

Water Company Acct	\$14,674.95
HOA Acct	781. 63 (funds moved from savings to this account)
Savings	<u>1000.04</u>
Total	16,456.62
Expenses:	
Insurance (HOA)	\$4140
Water Operator	7,800
Repair & Maintenance	5,684.50
Supplies	2,934.80
Utilities	<u>1459.77</u>
Total	23,521.39

III. Water Company Report

A. Terry Quillin

1. Several homeowners in the community are using 10-20,000 gallons of water/month which is putting a stress on the water company operations budget for electricity and filters.
2. Looking into automation costs of about \$20,000 which will simplify water operator responsibilities. Next year Ken is retiring and the water company will hire a new operator.
3. Suggested we consider hiring an outside firm to handle the books beginning the first of the year.

C. Water Company structural change -Terry Lystra

Background information: BCLHOA was formed at the ACC as a non-profit in 1990 or 91 but the entity was declined as a non-profit. The IRS issued an FEIN as a “for profit” corporation with shareholders thus

we have a mixed pedigree between the State of AZ and the IRS. The BCLHOA has functioned as if it were a non profit but has been taxed as a “for profit” corporation operating as a water company and an HOA.

Reasons to address this problem

There is an ownership shadow that prevents us from getting a loan for any new infrastructure, improved water purification facilities etc. and presents a question of who owns the SRP water rights. (No information of who the shareholders are. It’s believed there are none but no proof) If we are able to get the non-profit status intended, we will not face taxable income in the future irrespective of the income earned through reasonable rate increases.

Terry has contacted an attorney (non-profit specialist) who has recommended the formation of a 501(c)(12) Water Utility Cooperative as our best option. Our bylaws would be amended to change the definition of “membership”. Currently, “voluntary” membership occurs by joining the HOA. In the

501(c)(12) format, members can join, but they are not as important as “patrons”. Members are individuals who can participate in the cooperative’s management but they don’t receive water service. A patron is, in our case, a water customer.

- Three requirements must be met to qualify as a “Cooperative”:
 1. The Water Company must be organized and operated as a cooperative. Attorney fees of \$2,700 for amending the 1990 Articles of Incorporation, Bylaws, and refiling a form 1024
 2. The Water Company must conduct activities described in IRC 501(c)(12). The other HOA activities will no longer be part of the newly formed Water Utility Cooperative.
- Three necessary principles of “Conduct” as determined by the Court:
 1. Democratic control – Management is by “...democratically controlled meetings, with members, each with one vote, electing officers to operate the organization.”
 2. Operating at cost – Operations collects “Governmentally controlled rates” from each connected “member” and fully expends those revenues each year. Since >85% of all revenues were derived from members, results would be tax exempt.
 3. Subordination of Capital – If any member chooses to contribute capital to the entity, we can create a non-voting “Preferred Stock” with an 8% return limit, but this does not give them control of the operations, nor promise of pecuniary (monetary) benefits. This may require State Securities clearance. Loans may be more practical.
- Additional Requirements set out by the IRS
 1. The Water Cooperative must keep adequate records of each member’s rights and interest in the assets of the organization;
 2. The Water Cooperative must distribute any savings to members in proportion to the amount of business done with them (based on the operation at cost principle) **OR**;
 3. The Water Cooperative must retain funds it needs to meet RESERVES FOR REPLACEMENTS BUT REQUIRES A BOARD CONTROLLED LEGITIMATE PLAN/BUDGET AND ANNUAL ALLOCATION
 4. The Water Cooperative cannot forfeit a member’s right and interest in the organization upon termination of membership; (But they can be voluntarily forfeited) and
 5. Upon dissolution, the Water Cooperative must distribute any gains from the sale of any appreciated asset to all who were members while the cooperative owned the asset in proportion to the amount of business done with each, so far as practical. Advantages of a Co-op

The advantages of a cooperative include:

- Change to accrual for ease & clarity of financial information (if preferred)
- No personal liability if borrowings are sought

- Non-taxable permanently, as long as the water company complies.
- Written allocations of excess earnings (reserves) would eliminate possible taxable income
- The Water Cooperative would be fully identical in State and Federal structure and reporting (unlike now)
- Remove the cross-over between Community activities and Water Company activities

Challenges of a Co-op

- Requires annual notifications of allocation of earnings
- More complex bookkeeping
- Formation costs for Legal fees
- Requires HOA and Community activities be performed separately
- Likely requires a change in the name of the entity

Motion (Terry Quillin) To proceed with hiring an Attorney at a cost of \$2700 (\$1800 donation from community members and \$900 from the Water Company account) to change the Water Company's current structure to one of a Water Utility Cooperative -501(c)(12). (Second Tim) Motion carried unanimously

IV. The Annual meeting and gathering will be held Saturday Sept. 5, 2020 at the Glaunsinger residence.

V. Because of increased expenditures by the HOA, **Motion:**(Pat) To raise the HOA dues from \$75 to \$100.00 per yr. (2nd Terry) Motion passed.

VI. Lorna reported that the pit lock has been changed for the summer to prevent illegal dumping by unknown individuals who have access to the original pit key. The original lock will be re-installed after the monsoons. Tim Mattison pushed the pit and was reimbursed for his services by two property owner donors.

Adjourned 2:40 PM

Respectfully submitted Lorna Glaunsinger