Dear Resident of the Ranches,

As you have probably heard, a Utah district court recently decided the lawsuit that was brought by the residents in Willow Springs, Rock Creek, and Cold Springs (the "Sub-associations") against the Ranches Master Home Owners Association ("The Ranches"). In light of the court's ruling, we believe the Ranches needs to cease operating as soon as is practicable, most likely in the next 90 days or so. Until the Ranches is able to transfer all maintenance responsibilities to the city, terminate other contracts, and otherwise cease operations, all homeowners should continue to pay assessments.

The purpose of this letter is to provide you all the relevant facts regarding the lawsuit, why the Ranches feels like it should cease operations, a final resolution we are currently negotiating with the Sub-associations, and what the Ranches is doing to protect each of you. This letter is lengthy, but we want you to be fully informed so that you understand the implications all this has for each of you.

We are also going to hold a meeting at **The Ranches Academy on April 11, 2017 at 6:00 pm** so that we can answer any questions that you may have after reading this letter.

The Lawsuit

The lawsuit alleged claims for (1) quiet title; (2) unjust enrichment; and (3) wrongful lien. At the heart of each claim was the argument that the CC&Rs and other documents governing the Ranches are void, because the developer failed to record the original, 1998 CC&Rs. The developer did, in fact, fail to record the 1998 CC&Rs. However, this fact was unknown to the Ranches residents and their board for many years. When it became known, it put the Ranches board in a very tough position.

By the time this oversight became known, thousands of people had already chosen to live at the Ranches. Most chose to live here because they appreciated the benefits of living in a master association. They wanted their neighborhood, as well as surrounding neighborhoods, to be maintained at a high level. They liked the common theme that runs through the community, accented by such things as split rail fences, wooden sign posts, parkways, pocket parks, and native landscaping. They wanted architectural controls enforced to prevent things that would detract from this common theme—and our property values.

In light of all this, and to try to give effect to people's purchase expectations, a declaration was recorded to try to correct the developer's clerical oversight and continue to operate The Ranches. Every subsequent composition of the board since that time, as well as every management company that has worked with the board, have used this recorded declaration, which was understood to provide the governing authority for the Ranches. Over the years, the different boards have worked with you all to try to refine the CC&Rs to best serve our community. This resulted in a number of different amendments. ("Governing Documents").

Lawyers will tell you that there are certain laws based on equitable, or fairness, principles that justify an association continuing to operate under such conditions. However, there were a few among us that

recognized that an advantage could possibly be gained if they were able to challenge successfully the continued existence of the Ranches. Hence, a lawsuit ensued.

Efforts to Settle

The Ranches was always open to settlement throughout the litigation process. As trial approached, the Ranches asked for a formal settlement conference to see if we could find common ground with the Sub-associations. We met for an extended meeting in their counsel's office and set forth a framework for what we believed would be a workable settlement. The Sub-association representatives and their counsel appeared to be very receptive of the proposal and asked that we confirm our numbers and formalize the offer, which we did. In the end, however, the Sub-associations did not accept our settlement offer.

The Ruling and Damages

At trial, the three Sub-associations argued strenuously that the equitable principles on which we based our defense should not apply and that the Ranches had no authority to enforce any of the Governing Documents. The judge told the parties multiple times, during and after the trial, that the case was a "close one." He really seemed conflicted throughout the process. And, it took him considerably longer than normal to finally issue his ruling. In the end, however, he agreed with the Sub-associations that the equitable principles relied on by the Ranches do not apply. Accordingly, the judge granted the Sub-associations' quiet title claim and the wrongful lien claim. He denied the unjust enrichment claim, however, ruling that, despite not having authority to enforce the Governing Documents, the Ranches nonetheless provided a benefit to all of its members by way of implementing the community's master plan, maintaining our parkways and greenspaces, and enforcing architectural controls, etc.

In Utah, a person who asserts a wrongful lien claim is entitled to statutory damages, even if they did not incur any actual damages as a result of the wrongful lien. At trial, the Sub-associations did not put on any evidence that they had been actually harmed by the wrongful liens. Indeed, we do not believe they were harmed, just as no one could be harmed by being given exactly what they bargained for. Nevertheless, the Sub-associations sought, and the court had no choice but to award, more than $10 million in statutory damages. (Copies of the court's 94-page ruling are available to anyone who would like one by emailing clientservices@rancheshoa.com).

Continued Viability of the Ranches and Winding Down

Obviously, the amount of statutory damages is far more than the Ranches can pay. More fundamentally, we believe that the Ranches can no longer continue to operate in good faith in light of the court's ruling. We believe the best course of action is to do everything necessary to wind down and terminate operations as soon as practicable. The first thing we would need to do is give the city the required 60-days' notice to terminate the Maintenance Agreement. This would have the effect of turning over to the city all the maintenance the Ranches is currently doing.

Second, we need to make sure all current contracts are assigned to the city so that maintenance is not interrupted. We will also need to address a number of other administrative tasks so that nothing falls through the cracks as we transition responsibilities to the city.

Once we have accomplished these tasks, we will refund all prepaid assessments to those homeowners who have paid them for the entire year, prorated for the time that we were still in operation.

Implications of Ceasing Operations: Future Maintenance and Architectural Controls

Although we will transition maintenance responsibilities to the city, we obviously cannot transfer all functions the Ranches was performing for you to the city. It is important for you to understand that once the Ranches ceases operations, no one will enforce the architectural controls that have governed the Ranches for the past 20 years. Nor do we believe that the city will maintain the parkway, our many pocket parks, and surrounding areas to the same level that they have been maintained by the Ranches. We believe this is one of the true travesties of the Sub-associations' lawsuit.

The Board has worked very hard throughout the history of the Ranches to make sure that the expectations of people who chose to buy homes here were fulfilled. Central to these expectations were the level of maintenance and architectural controls that make the Ranches what it is. At trial, the Sub-associations argued that it would not matter if maintenance obligations are turned over to the city, because the residents can wield their combined political power to force the city to maintain the same level of maintenance. They also argued that we can force the city to adopt our architectural controls as new zoning ordinances in order to protect the architectural integrity of our neighborhoods.

To our astonishment, the judge accepted the sub-associations' arguments in this regard. It ruled that if the residents of the Ranches "want a higher level of parkway, trail, or park maintenance, they could just ask city officials to establish that higher level of maintenance." Similarly, it ruled that "the design guidelines for the Ranches could be adopted and enforced by the City."

Suffice to say, we have our doubts. We want you to be aware of these issues so that you can test the Sub-associations' arguments and the court's ruling by contacting the city to ensure that nothing changes that could adversely impact your homes and property values.

Satisfaction of $10 Million-plus Judgment

We are currently negotiating a settlement of the damages owed to the sub-associations. We are trying to resolve the damages award by (1) transferring to the Sub-associations our rights to pursue a claim under our insurance policy; and (2) paying to the Sub-associations all of our cash assets, less the money that will be required to refund residents who prepaid their assessments. A successful settlement will be based on all members continuing to pay their assessment while we wind down operations.

Conclusion

We recognize that this letter covered many different issues. We have tried to be as transparent and forthright as possible. If you have any questions or comments after reading this letter, we hope you will join us at the meeting on April 11, 2017.