

Annual Meeting Letter (by the President)

Good evening everyone and welcome to our annual meeting tonight -

My name is John Olsen and I am the President of our water association.

At last years' annual meeting, information was provided about the inappropriate use of Association funds and what the Board of Trustees was doing to rectify the situation. It is now a year later and I have some good news to report.

To recap from last year, as we prepared to move out on the construction of another tank for water reserves as well as an additional pump station, we conducted an in-depth review of our financial history. During this in-depth review, it came to our attention that while the Association has been able to keep rates low and continue to save money for projects such as the tank and pump station; serious questions arose regarding the use of the Association's financial resources by our longtime manager. The board hired the necessary professional services including a lawyer, auditor and bookkeeper and a criminal case was levied by Snohomish County. After an in-depth accounting review of the past 10 years, the board concluded that approximately \$454,798 of association funds were likely used in an inappropriate manner. We passed this information on to the Snohomish County Prosecutor, to our criminal insurance company and also levied a civil suit against our prior manager, Jesse Rowe. We were also able to establish a type of lien on the Rowe's home which would prevent the release of any monies to the Rowe's until this matter was resolved.

I am now able to report that we have largely settled the civil portion of this case. Our criminal insurance policy limit was \$100K and we were able to easily prove the inappropriate use of funds in excess of \$100K had occurred. Accordingly, we were paid the entire policy limit after some bureaucratic delays by the insurance company.

We were also part of a mediation hearing this past January with the Rowe's, and reached a settlement in our civil suit with them. The terms of the settlement included not paying the remaining salary and deferred compensation that was owed Jesse in the amount of \$39,460.00 and for the Rowe's providing the association new monies in the amount of \$300K secured by their assets and their home, which is presently for sale.

In order to allow the Rowe's to sell their home and to also protect RWA, a court order has been drafted which provides the following:

- Allow the Rowe's to sell their home to whomever they want
- Ensure that the sale is done in a commercially reasonable manner
- Prevent the Rowe's from committing any waste on the property or instructing others to do so
- Ensure that the home is marketed in a commercially reasonable manner so they get the best possible price
- Allow a 3rd person to come in to market and sell the property if the Rowe's do not do so within a reasonable period of time
- Have the Rowe's sign a promissory note and deed of trust so that the \$300,000 debt owed to RWA is secured against the property and any other assets that they have.
- Allow the Court to hold the Rowe's in contempt if they do not obey the court order

Our agreement with the Rowe's also provides that the trial set for March is stricken and that once payment is made, RWA will dismiss its civil case against the Rowe's and the Rowe's will dismiss their claims against RWA for wages.

Further, the mediation agreement includes that the Association will send a letter to the prosecutor which will state that our civil issue with the Rowe's has been resolved, that we have been compensated, and that for the criminal suit which remains that we recommend dropping the aggravating factors set forth and that any sentence should be within the standard sentencing range.

So in summary, of the original \$454K we received a total of nearly \$440K in our settlement. While not entirely a 100% restitution, information obtained by the board from our lawyer, from

the mediation judge and from other similar circumstances, indicates we are extremely fortunate to receive such a large portion of the original suit amount. By settling the suit in this manner, we also avoided potential risks that could have reduced the settlement amount significantly should we have elected to go to a jury trial: These could have included:

- Court costs: \$50 - \$60K or more
- Risk of having the 3 year statute of limitations being imposed: which could have totaled ~\$200K
- Risks of having the forensic accountant find items that "could" have been an RWA expense: \$0 - \$100K?
- Risk of having to pay Jesse 2X for the salary of his that we held: \$48K
- And of course, the risk that Jesse's case would be thrown out.

Are there any questions at this time?

I will now give you a short update on our planned tank and pump station:

Progress on the new tank and pump system has been largely delayed for the past year due to all the legal proceedings.

As you may recall, we are required by the State of Washington to have a larger storage unit for water to ensure we have the minimum 2-day supply in the event of an emergency. This requires the addition of a million gallon tank and associated pump station to ensure the required water is available. The storage the Association has always used is one of the main Everett water distribution lines which bring the water down from Spada Lake. On more recent occasions, this line has been in need of being shut down for maintenance and repair which puts our Association in jeopardy of losing pressure, draining our lines and causing problems during these shut downs.

The cost of the tank, pump station, engineering and all the required permits and reports has been projected to be about 3.1 million dollars. So far, the engineering and a good majority of the reports have been completed. We have approximately \$1M in capital improvement funds

available, including the settlement, which puts us in a great position to obtain the remaining funds from low interest loans, either from the State of Washington or the Federal Government.

We are planning to complete all the permitting this year, start some prep work this summer, apply for the necessary loans this fall and begin construction in earnest early next year.

In closing:

I would like to personally thank all the Trustees for their efforts this past year. When we became board members, it was usually assumed that this civic work would amount to only a few hours per month. For the past 18 months, this has been nothing farther from the truth.

I would like to specifically thank Mike Carlson for all his financial sleuthing. Mike's efforts formed the base for our successful civil case and resulting settlement. Thank you Mike! Further, I would also like to say that while Janelle had been in line to be the manager of the Association for a number of years, her transition to manager in early 2013 was all but seamless due to the termination of our prior manager. Janelle stepped up quickly, assumed the necessary responsibilities and has performed extremely well over the past year. Again, we would not have been as successful this past year without her. Thank you.

The board has also established new financial procedures that are in place, working well and ensure that all expenditures are reviewed by at least three people, the manager, a trustee, and our treasurer. We are confident the transgression that took place against the association will not happen again.

If you have any other questions please do not hesitate to contact myself, the manager or any board member.

Thank you. John Olsen