

# Town Hall Questions & Answers

## Budget – General

The budget is available on our website for you to review and refer to.

[www.Clearwood-Yelm.com/2020-budget](http://www.Clearwood-Yelm.com/2020-budget)

- **What will dues be if this passes? What happens if this doesn't pass?**
  - If the Bylaw changes pass, dues will be \$931.88/year upon budget ratification.
  - If the Bylaw changes do not pass, dues will be \$1066.88/year upon budget ratification.
  - If the Bylaw changes do not pass and the budget is not ratified: *See next question...*
- **What is the Board alternative to our financial issues if we the Homeowners reject the Special Assessment and Dues increase?**
  - If the budget is not ratified, the Board will have to consider severe cuts to services to the Membership. This could include administrative and maintenance staff, general cleanliness, and amenity availability. Without the proper funding we cannot operate this Association to the Member's current expectations. This would almost certainly mean that the Board of Directors would be forced to regain operational authority as the Managing body. The Board urges the Membership to pass these bylaw changes and ratify the budget to avoid being improperly managed any further.
- **Before we have a budget, shouldn't we have an audit?**
  - Yes. The Association is required to have an audit each-year and should have a budget for year's spending. We are compliant in that requirement.
- **When all of this is stabilized will we have a zero-dollar (\$0) based budget (balanced budget)?**
  - The budget that has been proposed to the membership for 2020 is a balanced budget.
- **Will we have a Bottom's Up budget every year?**
  - Yes. Our Accounting Manager (CPA) and Management team suggest that that this be done every year. It would be prudent of the Board to engage that process each year moving forward.
- **How is PPM included within this budget?**
  - The current cost of Professional Property Management has been fully integrated within the budget and is identified by line item.
- **Does a lot owner have to pay the same as homeowner?**
  - Yes. The Covenants are explicit that every Member is assessed equally.
- **How much is in savings?**
  - Operations Savings: "Emergency fund" or "contingency fund" can be used for very specific, unforeseen operational circumstances without incurred penalties. The Association has spent this contingency fund; this savings is currently depleted.
  - Reserves (capital funding): Can only be used for capital expenses and may not be used for operational, every-day expenses without a penalty and mandatory repayment plan. The Association has over \$3-Million in Reserves accounts; we are currently borrowing from Reserves for Operations and are in-process of making the legally mandated notification to Members and instituting a repayment plan.

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- **Can we see options to see how we can fix this problem over 3,5, 7 years? To see what those costs look like.**
  - At the end of 2019, we will realize a deficit in Operations. We have taken a loan from our Reserves accounts thus incurring a debt of \$220,000.00 to ourselves that requires repayment (plus interest) within 24 months per State and Federal law.
  - This budget reflects income needed in 2020; this cannot be delayed.
- **If we reallocate from Capital Reserves to repay our debt, do we have to have a special assessment?**
  - The bylaw changes being proposed will allow the Board to re-allocate funds normally intended for Reserves funding. This is not possible without the bylaw changes being approved by the Membership.
  - Yes, we still need a \$24 per-year per-lot special assessment, in addition to money that is reallocated, for repaying our debt to our Reserves. We cannot reallocate enough to cover the debt to reserves.
- **What happens if we do not pay back the reallocation in two years?**
  - If we do not repay money borrowed from capital (Reserves) within 2-years as required, all Reserves money becomes taxable at 30% - *note, we have over \$3 Million in Reserves.*
- **Is the reallocation a temporary option for one year? And would this bylaw change give the Board the ability to do that?**
  - Reallocation is part of the 2020 budget as a means of funding a deficit that we will realize; it is a solution to the complex financial problem the Association finds itself in. This Bylaw change would allow the Board to allocate funds for Reserves as-needed based on the budget needs and Reserve funding needs each year. The intent of reallocation as seen in the proposed 2020 budget is temporary for 1-year.
- **Can we create revenue generating actions to offset our cost? Such as pool fees?**
  - Yes, we can create new means of revenue. We are limited by law and our Covenants in certain aspects, but those are discussions that the Board can have.
- **What is stopping us from charging people to keep RVs on their lots when they winterize?**
  - Residents who have a home on their lot can keep their RV on that lot. There is a permit fee, and the RV must be screened from the street, as described in the CCA Rules & Regulations. Currently, the Rules & Regulations require that all RVs be removed from undeveloped lots unless a permanent residence is under construction on the lot.
- **Does the Board have arbitrary power over the budget?**
  - No. The Association's budget must be voted on by the Membership for ratification.
- **Of the money that is being asked for in 2020, will some of the assessments be reduced in 2021?**
  - That is unknown. Nothing in the annual budgeting process is automatic; the bottom-line must be evaluated and a budget must be produced and voted on each year.
  - The 2021 budget will be the first that we know of that will be based on 5-months of past-year actual financials; we will be able to work on the 2021 budget with much more accuracy than we have previously been able to.
- **What will happen in 2021, how do we know that the dues won't go up again? How do we know that the Board won't continue to make increases?**
  - What faces us in 2021 is unknown. Nobody knows what the end of this year will look like with certainty, but every reasonable effort is being made to accurately project our expenses. The budget for 2020, which includes increases, is proposed with great care; we recognize that it affects every Member of the Association – it's important for everyone to know that each Board Member is also affected by this increase. We believe that this budget covers necessary expenses and is not excessive – it responsibly funds our known and projected needs.

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- **For the person that owns 4 lots, what is their charge or interest rate going to be for that person that makes those payments monthly?**
  - Each lot is assessed equally, per the Covenants, Rules & Regulations. If someone owns 4 lots, they pay four times what someone owning one lot will pay. The exact amount of the 2020 assessment is not yet known, pending the outcome of the Special Election. After December 14, you can check in the office to find out how much you will be paying. The interest rate for anyone making monthly payments is 12% per year, 1% per month on the unpaid balance.
- **Was the delayed budget planning partially responsible for theft to be possible?**
  - Due to the ongoing investigation and upcoming litigation, the Board is not able to respond to this question at this time.
- **What about the money saved from Thurston County Sherriff and road paint? That money was freed up and not accounted for. Can we use it for interest or part of assessment?**
  - Our operating expenses are greater than current income; those cuts were accounted for as it reduced the assessment needed when those lines were subtracted.
- **How close would we be to bankruptcy if we did not raise the dues? What would happen to the home values?**
  - Bankruptcy is not an imminent concern. The Association is not close to a concern of that nature.
- **Can a state audit be done?**
  - The state does not audit HOAs. HOAs are private so we have 2 standard audits. We have an annual financial audit and every three years we have a Reserve Study done by a reserve auditor.
- **How long has the current firm been auditing us?**
  - We engaged a new auditing firm in 2018 and have contracted with them to audit 2017, 2018, and 2019. This is the Association's first engagement with this firm.
- **Do you have a graph showing what the expenses have been versus the money coming in over the last few years?**
  - No, not at this time. We do not trust prior-year numbers. When those numbers are confirmed from the audit, we can present them in that format.
- **Can we discontinue the use of certain amenities for 1 year? (Parks, Bathrooms, Pool, etc.)**
  - The budget problem in the community will quickly spiral downward by turning off Maintenance and Operations. Member satisfaction with their community will completely erode with no maintenance amenities or services. While the option is possible it should be considered the absolute last option and our situation is not that dire.
- **Doesn't the Reserve account have to be a certain percentage of funds at all times?**
  - No, it does not but there is the Reserve Study that shows what percent you are funded currently. The lower percent you are funded the higher the risk the Members are for a special assessment. It is a good thing our General Reserves are over 70% funded which indicates the Association is on solid financial footing for Capital repair.
- **Why is office 365 so high?**
  - The line, "61015 - Dues and Subscriptions" includes multiple software and digital platform subscriptions that the Association relies on in its normal business operations. We pay the standard cost of each subscription within that line item.

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- **Why do we provide employee benefits?**
  - The Association's human resources are our most important assets. The Association has historically taken the position that we are best served by loyal employees, and that we ought to demonstrate our loyalty to them. Our benefits package is in-line with normal business standards.
- **Are we making a profit on gate cards or at cost? Life span of card?**
  - Lifespan of cards is unknown, though we see several cards still active that were issued in 2014. We do make a profit: we pay \$3.36 (plus tax and shipping) and charge \$10.00
- **I cannot afford to live anywhere else and the increase will hurt a lot of people, but we need to be able to budget for it; no one wants to get hit with a cost. They want to know how much it is going to cost so they can budget for it too.**
  - The Association is in complete agreement with you and that is why we created a Bottom's up budget so that the dues increase would carry the actual cost of operating the Association. The Association does not want to operate on assumptions any more than the members do.
- **Does the Association have interest accounts?**
  - We are assuming the questions is about investments. Yes, the Association invests its capital (Reserve) funds on the recommendations of the Finance Committee and accounting professionals. The Association historically invests at the best interest rates we can achieve with low risk.
  - For example: we just invested \$1 Million in a 12-month Certificate of Deposit with our HOA bank who is giving us a 2% interest rate.
- **Does the bottoms up budget for 2020 include legal expenses for the embezzlement?**
  - The Board voted to remove funding specified for civil action from the 2020 budget, though the line-item for legal professional services has been increased from the 2019 budget to account for more discussions than normal with our legal counsel.

### Embezzlement / Theft Issue

- **How far back did the embezzlement set us back? And are we now paying for the incident?**
  - We are aware of unauthorized distributions of Association funds exceeding \$330,000 currently. We have expended \$206,622.74 in forensic auditing and legal efforts due to this event.
  - All thefts hurt. Fortunately, we weren't hurt so badly that we cannot recover. The Forensic Audit was necessary for the Association to engage because we need the information resulting from their investigation to correct our accounting records from previous years, regardless of criminal or civil action being pursued.
- **How much money do we expect to recover in civil action and how much it will cost to litigate?**
  - We do not know how much we can expect to recover, and the cost to litigate is dependent on too many factors to estimate at this time. As we learn more and discuss this with legal counsel, the Board will weigh Counsel's opinions and determine if pressing forward in civil action to recover funds is worth the effort.
  - There is no guarantee that we will recover money. We are pursuing many remedies including multiple insurance policies, criminal and perhaps civil avenues. As options become available and recommended by our Counsel, they will be considered.
- **If we recover money from insurance claims or from prosecution, what's going to happen to the money?**
  - Funds recovered are returned to the accounts they were stolen from under IRS Law.
  - The Community will be informed of all funds that are recovered so that they can provide input to the Board of Directors on use and utilization of that money.

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- **Why hasn't the criminal been arrested?**
  - The Association has filed charges; we are currently awaiting assignment of a prosecutor. Once the prosecutor is assigned, we expect to meet and have them review our forensic report. We have every expectation that they will proceed with arrest and prosecution. This is the legal process and there isn't much of a way to speed this up.
- **Per official postings, the residents are being told that insurance will not reimburse embezzlement (True or False)**
  - False. There has been no official statement on the final status of any insurance claim; our legal team is processing all avenues of recovery.
  - Important note: ONLY information posted on the Association's website ([www.clearwood-yelm.com](http://www.clearwood-yelm.com)), or on the Clearwood Facebook Page posted by the Clearwood Community Association, should be considered 'official.' This does NOT include any posting by any individual person or on the "Clearwood Community Residents" Facebook page.
- **For those that know timeliness was an issue for filing claims, why did they not offer Assistance or let the CW residents aware of the risks?**
  - The Association has been under advisement of legal Counsel in its pursuit of recovery, including guidance on insurance policies. All avenues are still being pursued and we are unsure of what will come of these policies.
- **Why was a bookkeeper hired without a background check? A background check would have revealed previous convictions.**
  - The Association has record of a background check being performed on March 27, 2014 (around the time the Association first engaged her services) which shows no criminal background; the Bookkeeper was charged on October 23, 2014.
  - The Association now has provisions for more frequent and regular background checks. The Board is doing their due diligence to confirm they have received background checks and obtained copies of insurance from its contractors.
- **If fraud was found in the 2017 Budget, is there going to be more fraud found for 2018-2019?**
  - Fraud has been discovered from 2014 – 2017. The forensic auditor that was hired by the Association has been given all records for 2017 and 2018 and has performed an analysis on them. Additionally, names of all employees and all corporate officers were provided to the forensic auditor to determine if any volunteers or staff were further involved in theft of funds. Currently, we believe we have sufficient accounting to identify known thefts.

## Miscellaneous

- **How do we the residents know that what Mitch and his team are telling us what needs to be done, is actually the way it needs to be done?**
  - Trust but verify. This concern is exactly why community involvement in Board meetings and committee meetings is critical. Asking questions to produce verifiable information, then going to the source of the information is how we ultimately accomplish that. At some point, trust must be utilized for success – having the right people on the Board and on the Finance Committee is how we produce solid checks and balances. The Management team has solid qualifications, extensive experience, and a demonstrated history of success in this field.

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- **Is there a government source/checklist the residents have access to, to ensure the HOA is being run properly?**
  - Homeowner Associations are governed under multiple laws and Administrative codes. They are complex and technical and no two HOAs are the same so there is no single checklist. Members that have questions or concerns should contact the General Manager to discuss those concerns and should they not be satisfied they should bring those concerns to the Board of Directors this is the nature in which an HOA operates.
  - Clearwood Community Association is a member of CAI (Community Association Institute) an international recognized authority for community associations.
- **Can we auto pay for HOA dues?**
  - Yes. Call or stop by the office for more details.
- **Why is it the Board is not paid?**
  - The Association's bylaws prohibit Directors from being paid for their service.
- **Out of the 1355 lots in Clearwood how many are permanent homes and how many are camping lots without a home?**
  - We do not have a simple, accurate answer to this question. Every lot with a house on it must have a Certificate of Water Availability (COWA), and this dictates how many lots can be built out.
  - We currently have 1049 COWAs and there cannot be any more houses than that. 306 lots do not have COWAs, and you cannot build a house without water availability.
- **If Clearwood has such a big issue with hazardous trees, how does Clearwood compensate for individuals removing their own?**
  - Clearwood is responsible for the trees on its lot and members are responsible for the trees on their properties. Clearwood owns more property than all the lot owners.
- **I don't feel maintenance has done their job.**
  - We understand that some of the Members can feel this way and for that reason we have hired a new Maintenance Manager. The Management Team will work with the Maintenance Department to develop a more assertive work program. If you have any concerns about Maintenance, please bring them forward to the Management Team.
- **What does "In-Good Standing" mean?**
  - This phrase is defined in the Association Bylaws (Section I) on page 2.
- **Will There be transparency in the future? Suggestion: have a link on the website that outlines the Community's budget, upcoming meetings, plans for improvement, scheduled maintenance.**
  - The Association's website has much information published, and updates are posted regularly. Moving forward there is an initiative to post Management reports so that the membership can become aware of staff activities.
- **What is the training the BOD Has to now go to?**
  - The Board attended an 8-hour training session in September, and it included a complete briefing of HOA, Corporate law and fiduciary education from the HOAs legal counsel. The HOA's insurance agent provided a complete briefing of insurance coverages, types, restrictions, and concerns. They received a class on Roberts Rules of Order. They were given a full briefing by the Accounting Manager on finances, financial controls, and status of our accounts. The Human Resources Manager provided an extensive briefing including giving them a class in harassment training. Lastly, the General Manager provided a briefing on the differences between Governance and Management.

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- **If you require the new BOD members to go to training are you requiring all members to attend the orientation as well even if elected again.**
  - Yes, all Directors will be required after election to attend Orientation even if they have done so already. Laws, finances, and insurance programs are all subject to change; it is important for everyone to have a fresh perspective each year.
- **How is voting done at this time? Is there a reason why we cannot do absentee ballots in our community?**
  - Currently all voting is by ballot; this may be hand-delivered or mailed in (otherwise known as absentee ballots). There was an approved bylaw change that has yet to be put in place for electronic voting, which we would like to see happen.
- **Why are the liens not being released?**
  - The Management team became aware of several liens that have not been released and notified the board in their reports this month and have stated they need to take action to remove liens and to apply liens. We hope to have all liens removed by the end of January. If there is a particular issue that is impacting a member, they should contact the GM to expedite this issue.
- **Why are our excise taxes late?**
  - Prior to August the Association was relying on an external accounting service to conduct accounting and tax services. This contract was terminated because of poor performance, now all taxes are performed by the management team and are current.
- **Who decides the way a measure up for vote is worded?**
  - Resolutions brought before the Membership by the Board are generally drafted by one or more Director(s), then reviewed and edited as needed by administrative staff and legal counsel.
  - Resolutions brought before the Membership by the Membership are drafted by one or more Member(s), presented to the Board, then sent to legal counsel for review prior to being placed on a ballot. *Every resolution goes to legal counsel for review to ensure that no law is being broken and that the Association is adequately protected with the language in each Resolution.*
- **Why are Residents not allowed access to all HOA documentation?**
  - Members are entitled to inspect records of the Association, except those records that are exempt by law. Members may submit a Records Request form in the Administrative Office, and members will be asked to please specify what records they wish to inspect. For example - Members that ask for, 'A copy of every document over the last 5 years.' would be turned down because it's too vague.
- **What is the difference of renters to owners?**
  - There are 1355 residential lots within Clearwood.
  - There are 156 renters registered with the Association. However, there may be some renters who are not registered.
- **How are we supposed to trust Board members to have our best interest when they are drinking (drunk) in the neighbor's yard?**
  - The Board recognizes that its Directors represent this community. If any Member has a concern about a Director's behavior or integrity, the Board would like to have that concern brought forward in a direct way, so that an open dialogue can be pursued.