

From: Bill [1masters@adelphia.net]
Sent: Monday, February 19, 2007 4:02 PM
To: Bill Murray
Subject: FW: Financial questions:

From: Bill
Sent: Monday, February 19, 2007 4:00 PM
To: jhmmssm@adelphia.net; Chris Allison
Cc: poyer@verizon.net; kmurphy129@adelphia.net; dbuemeyer@yahoo.com; mlh1140@adelphia.net; patshieldslhcc@aol.com; ngobrien@msn.com; JBroome@rbdlaw.com; jcardenas@RBDLAW.COM; mgraham@rbdlaw.com; jkearnery@thecrisislawfirm.com; stim_la_rim@yahoo.com; Chris Allison
Subject: Financial questions:

February 19, 2007

John Martel, Treasurer
LHCC Board of Directors
231 Redland Road
Cross Junction, VA 22625

Dear John,

As you know, I am concerned about financial issues at Lake Holiday. I have been reviewing LHCC's budget and financial expenditures, and I need additional information and answers to questions to complete my review. I am a member of LHCC, and as such I am entitled to receive this information in accordance with Virginia law. By this email I request these documents be produced no later than Monday, February 26, 2007. The documents I request are described below. My questions are:

- 1) Balance sheets for the Association show Income Taxes Payable of \$426,902 and Penalties and Interest Payable of \$110,867. How did the Association come to owe over \$425,000 in income taxes? Have we already paid these taxes? If not, when do we expect to pay them? Why weren't these taxes paid on time to avoid having to pay penalties and interest? We've paid for the services of CPA's and lawyers who I'm certain advised the Board on what taxes were due and when they needed to be paid. That they were not paid on time seems to be a clear failure to manage the Association properly. Who is responsible for incurring these huge penalties? On a related matter, there is a deferred tax asset on the Association's balance sheet that offsets the income taxes payable. Does this mean that we expect to get a refund of the taxes payable? When do we expect to receive this refund? If the taxes payable and refund offset, why are we paying over \$110,000 in interest and penalties?
- 2) It is well documented that LHCC has loaned over \$3 million to LHEUC. It is also well documented that the funds for this loan came from the dues of the LHCC. However, LHEUC has now been sold for far less than \$3 million. The Board has repeatedly said to members that the expenses for the Utility must be paid by the Utility customers, not the entire membership of LHCC, some of whom have no utility service. But this is not what took place. Now that we sold the Utility, how are dues-paying LHCC

members such as membership lot owners going to recoup their share of the \$1.9 million that was lost on LHEUC?

- 3) At the end of 2006, the Association had approximately \$194,000 in cash and borrowings from Wachovia on a recent line of credit of over \$340,000. In addition, there was over \$118,000 in accounts payable and payroll liabilities. These liabilities alone exceed cash on hand by over \$264,000. In light of these obvious financial challenges, why has the Board not acted aggressively to reduce spending? Why has the Board not been more open about discussing the Association's cash crunch? Certainly, the answer to the cash crunch is not the sale of the Utility. This sale is a one-time event, and budgeted capital expenditures for 2007 are far in excess of the actual Utility proceeds.
- 4) What was the actual amount of proceeds received from the Utility sale? In February of 2006, then President Chris Allison indicated proceeds would be \$2 ½ million. I have learned that the actual amount received was much less than half that sum, or approximately \$1.1 million. This is one of the largest transactions in the history of this Association, and there has been no detailed comparison of the expected to the actual proceeds. Why has the Board been unwilling to communicate accurate financial information on the Utility sale?
- 5) General Legal Fee expenses exceeded \$475,000 for the year 2006. The budgeted amount was \$60,000. There is no discussion or approval in the minutes for exceeding the budget amount by over \$415,000. Who authorized these additional expenses? This is an absurd amount for any community to pay for legal fees. We have heard that legal expenses are so high because of Ogunquit's law suit, but this claim does not hold up to scrutiny since our insurance carrier selected and is paying for our attorney in that case. What subject matters are covered by these legal fees, and who from the Association communicates with the attorneys that submitted these invoices? If this board wants to control legal fees, why does it act in such a secretive manner and make decisions that will only cause additional law suits? Please answer these questions and provide me with a breakdown of all expenses for General Ledger account 5102-Legal Fees. Further, please provide me with a copy of each invoice that was charged to this account for 2005 and 2006.
- 6) Legal fees for Collections expenses exceeded \$83,000 for the year 2006. The budgeted amount was \$50,000. There is no discussion or approval in the minutes for exceeding the budget amount by over \$33,000. Who authorized these additional expenses? Why do we have such a large amount for legal fees for collections at a time when our accounts receivables (past due amounts) is at an all time? The most recent AR report shows an Average Days Billings Outstanding of 85.27 days, with a total outstanding due amount of \$429,826 when at the end of 2005 it was just 59.70 days with a total outstanding due amount of \$275,614. Days outstanding have increased over 42%, and the amount outstanding has increased over 55%, but legal expenses for collections are going up and over budget. Clearly, these increased expenditures are not producing positive results. Is it true that legal fees for collections increased so dramatically because the Association changed the law firm handling this matter? If this is the case, were directors informed of the financial consequences of changing the law firm charged with collection issues? Please provide me with a copy of each invoice that was charged to this account for 2006.
- 7) At a time when our accounts receivables are so high, we had a Bad Debt Write off of over \$27,000 for year 2006 against a budget of \$8,000. There is no discussion or approval in the minutes for exceeding the budget amount by over \$19,000. Who authorized these additional write offs?

- 8) Postage expenses were nearly \$28,000 for the year 2006. The budgeted amount for 2006 was \$12,240. There is no discussion or approval in the minutes for exceeding the budget amount by nearly \$16,000. Who authorized these additional expenses and when were they authorized? Does the \$28,000 include postage for the proposed governing documents and political mailings? It was my understanding that Miller & Smith had agreed to pay for the postage for related to proposed governing documents. Did they make this payment? If not, why not? Please answer these questions and provide me with a breakdown of all expenses for General Ledger account 5010-Postage and provide me with a copy of each invoice that was charged to this account for 2006.
- 9) Printing and Copying expenses exceeded \$64,500 for the year 2006. The budgeted amount was \$30,000. There is no discussion or approval in the minutes for exceeding the budget amount by over \$34,500. Who authorized these additional expenses and when were they authorized? Does the \$64,500 include printing and copying for the proposed governing documents and political mailings? Did Miller & Smith pay for the printing expenses for the proposed governing documents, and if not, why not? Please answer these questions and provide me with a breakdown of all expenses for General Ledger account 5015-Printing and Copying. Please provide me with a copy of each invoice that was charged to this account for 2006.
- 10) Patrol Services charges for 2006 totaled over \$54,000. Yet the budget for 2006 was only \$29,066. There is no discussion or approval in the minutes for exceeding the budget amount by approximately \$25,000. Who authorized these additional expenses? Why do we have 3 security patrols in the winter? We were told that Miller & Smith was paying for "extra" security. Did they pay for any extra security as the Board has claimed? If Miller and Smith did pay for any security, please provide me with a copy of the reimbursement check that applies to the extra security detail.
- 11) Miscellaneous expenses exceeded \$10,000 for the year 2006. The budgeted amount was \$3,000. There is no discussion or approval in the minutes for exceeding the budget amount by over \$7,000. Who authorized these additional expenses? Why do we have such a large amount for Miscellaneous? Please answer these questions and provide me with a breakdown of all expenses for General Ledger account 5065-Misc and provide me with a copy of each invoice that was charged to this account for 2006.
- 12) We now have a "New Position Expense" with an amount of \$3,655 spent in 2006. There is no discussion or approval in the minutes for this expense item. Why do we have a "New Position" that was not approved, particularly at a time when we should be reducing - not increasing - staff? After all, we just sold the Utility, and the current and past Boards argued that operating the Utility consumed too much of the Association's resources. Who authorized this New Position? What is the New Position?
- 13) In addition to the above referenced New Position, I have learned that the Building Construction Supervisor, Mike Goodwin, was recently promoted to Assistant General Manager and given a salary increase to over \$45,000. There is no discussion or approval of this in the minutes. Who authorized this new position and salary increase? Why are we increasing office staff and salaries when we should be reducing fees, salaries, and personnel following the Utility sale? The Utility paid 32% of office salaries so we should be able to reduce office staff by at least 32%. I have also learned that Robin, the front desk administrative person who was hired just this past September, has already received a raise. Is it your policy to give raises to office staff after just three months of service? Please explain your rationale for these expenditures to me in writing.

14) Income statements for the Association show sales of LHCC owned lots (General Ledger account 4321) of approximately \$54,000 for \$2006. Yet according to my research, the Association sold 1 buildable lot for \$60,000 and 2 membership lots for a total of \$11,500, or a total of \$71,500. Why does the sale of lots understate the actual amount? If the actual amount is reported under different General Ledger accounts, under what accounts and in what amounts are these sales reported? If that is the case, why aren't they reported under a single account to make this information easier to locate?

15) So that I can keep my information current, I would like to receive a check register, a balance sheet, and an income statement within 5 days of the close of each month.

I do not understand why so many decisions have been made behind closed doors. We deserve a board that operates in the open and gives the membership the opportunity to discuss and review important decisions. We deserve a board that documents all decisions in the minutes. I will expect your written responses and copies of the requested documents by February 26, 2007. I am prepared to pay reasonable copying charges. Otherwise, I will visit the Association's office on Monday, February 26th to gather and review the requested documents.

Sincerely,

Bill Masters