

Dear Homeowners of Annandale HOA;

This letter is written to accomplish two things:

- 1) To inform and keep the Homeowners up to date regarding the legal fees your HOA has incurred as a direct result of Douglas Kruschen legal actions.
- 2) The urgency of the special assessment for the roofing project as the conclusion of detailed evaluation, bid process, warranty and financial justification that disclosed the need to reroof our community.

We are writing to inform you about serious and ongoing matters that are affecting our entire community—both financially and socially.

Our role:

As your elected Board, we have a duty to manage the community's shared resources responsibly and to act in the best interest of all homeowners. As volunteers, we spend countless hours to maintain and enhance our community subject to the financial limits in our CC&RS. This is a challenge that we are committed to addressing. We have been elected as backbone to our Association. But challenges we face now are unprecedented.

What we face:

For the last several years, we have faced—and continue to face—costly legal matters instituted by a single homeowner, Douglas Kruschen. These matters have included a wide spectrum of claims directed not just against the Association, but against certain board members individually. To add insult to injury, Mr. Kruschen has sought punitive damages against board members.

And while the Board seeks to resolve disputes amicably, Mr. Kruschen has in the past and continue to promote the follow lawsuits:

These are:

- Multiple Small Claims lawsuits
- State Superior Court actions to invalidate a board election;
- State Superior Court action to obtain a court order to reduce quorum for a bylaw amendment;
- State administrative actions claiming housing discrimination filed with the California Civil Rights Department, and
- A recent filing in the United States Federal District Court, again, with a litany of discrimination allegations. The unwarranted claims of defamation, harassment, breaches of fiduciary duty, violations of the CC&Rs, etc. are alleged in a in a variety of contexts.

- A lawsuit that claims that the Board illegally appointed a financial officer
- A lawsuit to compel the removal of a Board member
- Civil harassment lawsuit against the former Board president
- And worse, even the spouse of one board member was sued along with the father of another director.

This is illustrative, but not exhaustive, of what your Board has faced.

It is important to note that several of these legal actions are ongoing and still yield significant legal expenses to mount.

Expense:

These legal actions have caused huge expense—not just for our association, but for our insurance carriers. As between the defense costs and legal fees incurred by our association insurance carriers for multiple attorneys and fees and costs for our own association counsel, easily \$500,000 plus has been incurred. But this masks the additional costs. Our management and board members spend much time with legal matters which can detract from other important tasks. Our insurance premiums, continue to increase. Worse yet, the availability of carriers willing to ensure our community is jeopardized by legal threats and defense of lawsuits.

Impact:

The funds spent by our Association come directly from our collective dues and would be much better utilized to fund our reserves and community maintenance, and improvements that resolve the most pressing issues in our community. Instead, they are being diverted to cover attorney fees, court costs and increased insurance premiums resulting from actions that do not benefit—and in fact, harm—the community at large.

Douglas Krushen has used mail threats to promote his business, highlighting and misinforming the Annandale community and still continues to operate an unofficial website that mirrors what a real HOA website would look like in an effort to continue to spread misinformation to the community. This situation is not only financially burdensome, but it sets a troubling precedent for how conflict is managed within our neighborhood. The Board continues to explore every legal and reasonable option to minimize further legal costs, but we want you, the members of this community, to be aware of the direct impact this has on our reserves/shared resources and the monthly HOA fee amount.

Reserve Analysis

At this point the current board commenced a review of the reserve balances and activity over the last 5 years and found that the \$3.4 million reserve balance from 2021 has been reduced to just over \$2 million by fall of 2023. This \$1.4 million decrease is even greater when one considers that the reserve studies recommended annual contributions of \$350,000 to \$455,000 which would add another \$1.2 million to the reserve balance and increase the decline to \$2.5 million over this time period. We are currently preparing an analysis to determine where and how these funds were used since without this decline there would be no need for a special assessment. Most importantly All homeowners should note that the 2024 reserve study reported a fully funded reserve balance of \$5,093,000 of which the roofs represented 86.8% of the total reserve or \$4.4 million. This translates to \$2,950,000 of the 2021 reserve earmarked for roof replacement. What were those funds used for since the roofs were not replaced but the reserve was decreased by \$2.5 million during the 3 years Douglas Kruschen was the Treasurer and or CFO of the HOA board. Our analysis is ongoing, and we will continue to update homeowners at our monthly meetings.

It is clear from the last 5 years reserve study reports that Mr. Kruschen who was the HOA CFO from 2021 through 2023 knew that our roofs were at or nearing their end of life but instead of solving the problem protecting and increasing reserves to provide for roof replacement without a special assessment, the reserves were significantly decreased reallocated away from the roofs that represent 86% of all reserves without replacing our roofs and installing gutters.

Sincerely,
Annandale HOA board