

Hello from LISE;

This spring we have been graced with warm temperatures and abundant rainfall. Lummi Island is as green as I have ever seen it. The docks are in the water in the marina, and last year's upgrades are looking great. The swim lake is full, but still very cold. I went last weekend with my grandchildren and was not brave enough to go for a swim.

I hope you will welcome Gloria Maxwell as our new Treasurer. She moved here the end of 2015 and has agreed to help out with our financial oversight and planning. I would encourage everyone to consider volunteering in some capacity. I realize it is difficult to want to get involved while this lawsuit hangs over our heads, but it is important to have other members participate. The volunteers that have been serving on the Board of Directors won't continue indefinitely, and it would be best for all if there could be some sort of orderly transition on the board.

In April, we received notice from our insurance company that they would not renew our policy because of the expenses they have incurred due to the lawsuit filed by Chuck Ortego, Louise Weber, Jim Dickinson, and others. We scrambled to secure coverage for the association, and at the last minute we were able to put together a piecemeal grouping of policies that meets our needs. It is not as good a package as what we had before and it costs about four times as much as we have paid in the past. Our previous insurer is still responsible for the costs of finishing the current lawsuit, but the board is still discussing how to make up the budget shortfall this year due to this unexpected increase in premiums of over \$30,000.

We are working on the 2017 budget to present for your approval at the AGM on August 27th. You should be aware that the Ortego/Weber suit will directly cause your dues to go up significantly. We will send a packet in advance of the AGM with the details, as we are still debating the exact budget amounts.

You will find a summary of the lawsuit attached, but it doesn't describe the stress and time put into defending this association. I would like to thank my fellow board members and their spouses (who are also named on the lawsuit) for the hundreds of hours they have dedicated to this, and I ask you to thank them personally when you see them for their work defending LISE and all of its members.

Words from Ken Swanson, Finance Chair.....

As you all are aware, we are involved in a Federal Lawsuit brought on by a few disgruntled owners. I am using my space to report on the effect of the Federal Lawsuit on the real estate market in LISE and to give you a snapshot of the current market. I am a real estate broker licensed to practice in Washington.

My wife and I built a house in LISE in 2008 and have lived here full time for the last 6 years. I have been on and off the Board, as needed, during that period.

Despite the lawsuit, there is quite a bit of real estate activity in LISE. The numbers for 2016, as of today- of the 22 island homes listed for sale on the NWMLS- 9 are in LISE. There are 3 pending sales, 1 is in LISE and of the 4 homes sold this year 0 were located in LISE. Of the 24 vacant land parcels for sale, 13 are in



LISE. 1 property is pending on the west side and the one sale this year is in LISE. Of course it's still very early in the year and we will start to see sales in LISE increase and we should achieve our market share numbers. Regardless of location – Lummi Island is a “Buyer’s Market”. Lots of inventory to choose from and typically not a lot of buyers. We sell about 20 - 25 homes a year, on average. As a comparison, both Orcas and San Juan Islands sell about 100 each.

Our recent past:

2015: island home sales – 22; 32% of those were in LISE

vacant land sales – 7; 43% of those were in LISE

2014: island home sales – 21; 33% of those were in LISE

vacant land sales – 7; 43% of those were in LISE

Our market share is quite good.

With Lummi being the least expensive of the San Juan Islands and the easiest to get to, I feel that we will stay around the numbers above. 20 -25 homes sold; 5-10 vacant parcels with LISE getting roughly 30-35% of the home sales and 40-45% of the land sales. I would certainly like to grow our share of the pie.

Island Pricing. In general terms, the west side of an island is “typically” the most expensive section. Lots of sunshine, sunsets, etc. next in order comes the south and north ends and finally the east side. And there are many other factors involved in establishing price. That’s another day.

Why choose to LISE? The location, the amenities and the people. We have the best boat launch and docks on the island. We have a great clubhouse on the shoreline. We have a fresh water swim lake. AND we have the best drinking water on the island. The views to the east are incredible.

As a Board member, I am committed to seeing this Federal Lawsuit to its conclusion. We need a decision from the judge. By the way, are you aware that most of the Plaintiffs also have a case filed against you and me in Superior Court? But that is on hold while we battle through the Federal case.

The time for involvement is now. I encourage each of you to get involved in the Association. Attend Board meetings, visit our website and stay current on the issues of the Estates. You are the owners of LISE. You each have a vested interest to ensure that our Association continues to operate, grow and provide the kind of organization we all enjoy.

The following is an update written by the attorneys representing LISECC. The Plaintiff’s referred to are listed below:

Charles E. Ortego and Anna S. Ponomareva
John S. Apolis and Marcia Apolis
Victor D. Armfield
Charlene Baldrige (COKD Trust)
La Priel C. Barnes
Boyd Barry
Midana Bilik-Franklin
Grant P. Bowery
Jennifer L. Dubrow
Edson A. Engel and Patricia Engel
Linda Fengler
Fischer Trucking LLC

Hugh B. Smith and Terrie L. Smith
Thomas L. Waggoner and Rosalee Waggoner
Louise Weber and John M. Weber
Stephan R. Freelan
Ruth Gross
Joy Krell
Edward Earl Lawson
Lummi Island Land Company
Mark Mech
Lee G. Mundstock
Richard Owen
Gerald G. Schroeder

This lawsuit is brought against you (listed as Lummi Island Scenic Estates) as well as current and past board members as well as their spouses listed as the defendants:

Lummi Island Scenic Estates Community Club, Inc.
Mark R. Sexton and Jane Doe Sexton
Douglas Cash and Jane Doe Cash
Ronald C. Bain and Jane Doe Bain
Leslie M. Dempsey and Paul C. Dempsey
Bridged Lott and John Doe Lott
Meredith Moench
Kent C. Nielsen and Jane Doe Nielsen
Timothy Slater and Jane Doe Slater
Kenneth Swanson and Jane Doe Swanson

Ortego, et. al. v. LISECC, et. al
Summary of Federal Lawsuit

As you will recall, several LISE owners, led by Chuck Ortego, Louise Weber and Jim Dickinson (the “Plaintiffs”), filed a federal racketeering suit against LISECC and 10 present and former Board members (the “Defendants”). The Plaintiffs in this particular lawsuit are owners of property within Lummi Island Scenic Estates (“LISE”) and, hence, members of LISECC. Several of them have previously served on the LISECC Board of Directors. The primary issue in this lawsuit is Plaintiffs’ claim that LISE owners could not and cannot be required to be members of, and pay dues and assessments to, LISECC after 1990 because some (but not all) of the plats which created LISE included a 25-year sunset provision for the restrictions in those plats. LISECC owns and operates the water system through which the homes in LISE receive their potable water. Plaintiffs contend that Defendants have imposed unlawful water assessments to LISECC members, despite the fact that many of the Plaintiffs have actively supported and enforced these assessments. Plaintiffs also contend that Defendants have unlawfully permitted “bound” lots, despite the fact that many of the Plaintiffs have actively supported and enforced LISECC’s longstanding bound lots policy.. Plaintiffs further allege that Defendants have mismanaged LISECC fraudulently and for their personal gain.

The Defendant Board members and former Board members have all served as volunteers and each of the key decisions attacked by Plaintiffs was taken following the advice of LISECC’s legal counsel and based on the vote of the LISECC membership. LISECC records amply demonstrate the good faith and sound reasoning behind the decisions of these volunteer Board members and the fact that several of the Plaintiffs joined in or supported the very decisions challenged in this lawsuit.

The primary Plaintiff, Charles Ortego, is funding and managing the lawsuit. He was removed from his post on the LISECC Board by a large majority of the LISECC membership and has been opposed many times by other Plaintiffs. He and his wife allege that Defendants sabotaged the water system he built at his property when he was cut off from accessing LISECC’s water system for his refusal to pay dues and assessments which the rest of LISECC’s members pay. Ortego further contends that he was the victim of witness tampering which he claims Defendants carried out to retaliate

against him. Ortego also claims damages from injuries he sustained from falling off a ladder he was on while constructing his own water system. Evidence thus far strongly rebuts these claims.

The Plaintiffs contend that they have been injured in the form of substantial diminution in their property values. Defendants' expert has comprehensively rebutted these claims.

To date, the judge has agreed with LISECC and rejected various of Plaintiffs' claims. First, the judge ruled that the owners of property within Divisions 1 and 2 (including Louise Weber) are subject to LISECC's authority. Second, the judge ruled that LISECC's bound lots policy is proper and enforceable. Defendants plan on bringing additional motions before the judge in the near term. The issues which are not resolved by the various motions, will be determined at the trial. The trial was scheduled to commence October 3, 2016, however, based on the sudden death of Plaintiffs' lawyer on May 1, 2016, the judge postponed the trial until January 9, 2017.

The decisions in this lawsuit will finally determine these issues and allow LISECC and all its members to move forward.