CAPE HAZE RESORT
COMMUNITY ASSOCIATION

Approved Financial Plan

15 August 2018

Background

On April 3rd, 2018, the developer, Robert Morris, met with the presidents of the three condominium boards and offered to sell the undeveloped Cape Haze Resort property to the Community Association. On April 18th, Mr. Morris agreed to the sale if the Association would enter into a binding purchase contract by June 15th and not to consider any other offers until that date. On April 23rd, a combined meeting of the condominium boards agreed (1) to gather more information regarding the land purchase and (2) to distribute a memorandum to owners to explain Mr. Morris' offer (sent on April 23rd).

On May 1st 2018 there was a conference call among the three condominium board presidents, Robert Baran, Frank Giordano and Pete Travers, and Mr. Morris to clarify a mutual understanding of the offer and to clarify some misconceptions held by Mr. Morris. On May 4th 2018, Morris met with Robert Baran and Mark Watkins at the Becker & Poliakoff offices in Sarasota, along with Kevin Edwards (our Association attorney) and Michael Boutzoukas (Becker real estate attorney) to work out the terms of the purchase agreement and the procedures required for the Association to authorize the purchase. During the course of that meeting (1) the legal counsel advised that the contemplated purchase could be accomplished by the Community Association without a general vote of unit owners; (2) the Community Association retained Becker and Poliakoff as its *independent* representation for the purchase; (3) procedures were outlined to accomplish the purchase. In order to effect the transaction in compliance with Florida's Sunshine Law, Mr. Morris appointed Mark Watkins to an open seat on the Community Association Board. At a meeting of the Board on May 29th 2018, the Community Association adopted a resolution that provided Mr. Watkins with broad authority enter into the purchase agreement on behalf of the Association and to work toward accomplishing the sale.

Closing of the purchase was July 16th 2018. Acting on the advice of counsel, the Community Association was authorized to use Community Association designated reserve funds for the purchase for the common benefit of its members and the unit owners. The turnover meeting was held on July 30th, 2018 at which time board members Pamela Morris and Robert Morris resigned and a new 5-person board was elected by the members (the three condominium associations). At a subsequent meeting later the same day, the board was expanded to six members (two from each condominium association) and a sixth director was elected.

From April 3rd 2018 through the special meeting on August 15th, 2018, the members of the newly-elected Community Association board as well as members of the three Condominium

Association boards have engaged in numerous meetings, informal discussions, evaluations of documents, and consultations with attorneys and our new management company for the benefit of unit owners. This activity was guided by principles of openness and transparency; compliance with applicable law and our governing documents; and receptiveness to owner inquiries and viewpoints.

Capital Reserve Study

On June 28, 2018 the presidents of the three condominium associations, acting as the members of the Community Association, accepted a proposal from Karins Engineering Group (KEG) to perform an analysis of the Association's capital reserve requirements. The resulting 30-year Capital Reserve Study is posted on the Cape Haze web site. It essentially includes all of the elements for which reserves are established and their replacement costs. Some of those costs are marked in "today's dollars" and, for the purposes of the financial plan, we will have to adjust those by the Fed's target inflation factor of 2% in the financial plan.

Financial Plan

General Principles. The basic principles used in development of this plan include the following:

(1) Re-establishing prudent initial base amounts for reserves
(2) Establishing a schedule for reserve contributions on a schedule that will maintain reserves at levels sufficient to provide for emergencies through the years of the plan
(3) Providing ongoing opportunities for unit owners to contribute their viewpoints
(4) Minimizing financial impacts on unit owners within the general requirements of the Association for maintenance of common facilities; and
(5) Providing for adjustments of the plan as circumstances change

Plan Development. The board has set out the three basic approaches for meeting the Association's reserve needs. Using the Excel version of the spreadsheet included with the Capital Reserve Study, the board reviewed numerous scenarios combining various levels of special assessments and annual contributions. A table on the next page provides two specific examples and illustrates their projected financial impact on the Association and unit owners.[1] **The initial goal was to select one of these approaches – or an alternative approach as may be proposed and discussed at the August 15, 2018 meeting - as an initial financial plan. The plan can, of course, be changed at any time as circumstances change.**

The three basic approaches we considered were:

1. **Do Nothing.** Starting from where we are without an immediate special assessment or any increase in annual reserve contributions (currently about $50,000). This would require no present cost increase to unit owners, but would entail significant economic

[1] The Excel version of the spreadsheet can be sent to any interested unit owner upon request.

risk[2] to the Association and ultimately significant and repeated special assessments to make up shortfalls. We think this choice is inconsistent with responsible management and the Board's fiduciary duties to the community.

2. **Increase Reserve Contributions**. Starting from our current reserve balance of approximately $207,000 with no immediate special assessment, but planning for regular increases reserve contributions. This has the advantage of low initial cost (no special assessment), but anticipates regular increases in annual reserve contributions.

3. **Special Assessment Plus Increase Reserve Contributions.** Unit owners would be assessed to bring the base reserves up to a prudent level associated with increases in reserve contributions. These increases could be *gradual* (small increases at relatively regular intervals) or *immediate* (an initial larger increase with no further increases during the period covered by the plan. This approach would establish current reserves at a prudent level, thereby relieving economic risk as well as anticipating appropriate future increases in annual reserve contributions.

On the next page is a table showing the results of different combinations. The first gray row corresponds to "Do Nothing" above. The table is color coded; green rows have no special assessments and blue rows combine a special assessment in varying amounts with increases in annual reserve contributions. Other gray rows illustrate special assessments with no increases in annual reserve contributions.

While above we considered gradual increases in annual reserve contributions, the amounts in the table reflect a one-time increase in 2019 that remains steady until 2047. This is to make it easier to compare scenarios. The financial outcome in 2047 (28 years from now) is part of our calculations because the Capital Reserve Study extends that far to account for all of the items we are likely to repair or replace.

Scenarios 1-4, foregoing an immediate special assessment and increasing reserve contributions in 2019 by various amounts leaves the reserve amounts relatively low during several periods. Emergencies (hurricanes, fire and so on) may require the use of reserve funds. Your board believes that a responsible baseline amount would be $450,000. This increased annual assessment translates to approximately $170 per unit owner.

Scenarios 5-8, with a special assessment of half ($1,750) of what was originally contemplated, leaves us near our financial position at the beginning of 2018. The least expensive scenario in this group (we never fall below our baseline, we never run short of cash) is **scenario 7** to pay for replacements and our projected reserve balance in 2047 is $90,000. While this is below our $450,000 threshold, most of our major items will then be at the beginning of their useful lives. **Scenario 6** is even less expensive and nearly equivalent in its results.

[2] The economic risk is that insufficient reserves for catastrophic events require repeated special assessments to make up the shortfalls.

Scenario	Assess-ment	Initial Reserve	Increase Annual Reserve Amount	Annual increased cost per Unit	Quarterly increased cost per Unit	Year reserve balance < $450,000	Year reserve balance < $0
Do Nothing	None	$207,000	None	None	None	2019-2026 and 2027-2047	2037
1	None	$207,000	$10,000	$69	$17	2019-2024 and 2027-2038	2047[1]
2	None	$207,000	$15000	$104	$26	2019-2023 and 2027-2031	2047[2]
3	None	$207,000	$20,000	$139	$35	2019-2022 and 2027-2029	2047[3]
4	None	$207,000	$24,700[4]	$142	$43	2019-2022 and 2037-2039	Never
Low assessment; no increase in reserves	$1,750	$457,000	None	None	None	2027-2030 and 2037-2047	2047[5]
5	$1,750	$457,000	$10,000	$69	$17	2027-2029 and 2037-2041	2047[6]
6	$1,750	$457,000	$15,000	$104	$26	2037-2038	2047
7	$1,750	$457,000	$20,000	$139	$35	Never	Never
8	$1,750	$457,000	$24,700	$142	$43	Never	Never
Slightly higher assessment; no increase in reserves	$2,000	$495,000	None	None	None	2037-2046	2047[7]
9	$2,000	$495,000	$10,000	$69	$17	2037-2040	2047[8]
10	$,2000	$495,000	$15,000	$104	$26	Never	2047[9]
11	$2,000	$495,000	$24,700	$142	$43	Never	Never
Higher assessment; no increase in reserves	$2,500	$567,000	None	None	None	2037-2044	2047[10]
12	$2,500	$567,000	$10,000	$69	$17	2037-2038	2047[11]
13	$2,500	$567,000	$15,000	$104	$26	Never	Never
14	$2,500	$567,000	$24,700	$142	$43	Never	Never
Original planned assessment; no increase in reserves	$3,500	$711,000	None	None	None	2037-2040	2047[12]

SEE NOTES ON THE NEXT PAGE. Gray rows same reserve contribution as 2018; green rows no special assessments; blue rows combined assessments and reserve contribution strategies.

NOTES:

[1] Shortfall in 2047 is at least $440,000.
[2] Shortfall in 2047 is at least $290,000.
[3] Shortfall in 2047 is at least $140,000.
[4] This is the assessment amount recommend by KEG
[5] Shortfall in 2047 is at least $489,000.
[6] Shortfall in 2047 is at least $451,000.
[7] Shortfall in 2047 is at least $200,000.
[8] Shortfall in 2047 is at least $162,000.
[9] Shortfall in 2047 is at least $162,000.
[10] Shortfall in 2047 is at least $380,000.
[11] Shortfall in 2047 is at least $90,000.
[12] Shortfall in 2047 is at least $236,000.

Scenarios 9-11, with a special assessment of $2,000, have similar outcomes to scenarios 5-8 except that the reserve balances are higher.

Contingencies for Newly Purchased Land. Our initial financial plan **does not include** contingencies for the land we just purchased. There are two reasons for this. First, it is not anticipated that new common amenities owned by the Community Association will be constructed there until after a development plan has been approved. Including estimated reserve requirements for assets that do not yet exist would be pure speculation. Second, by the same token, the inclusion of estimated contributions to reserves from an unknown number of future unit owners would also be merely speculative. Until these decisions are made, after community review and input, we cannot judge the potential impacts of future development on the Community Association's reserve requirements.

Inflation. For *a few* expenses detailed in the Capital Reserve Study, the replacement cost amounts do not take inflation into consideration. As the Financial Plan is further refined, it will be necessary to account for inflation in *some* costs and adjust the projections accordingly. This will have little impact until 2027 when the first truly major replacement expenses (amounting to $373,000) are incurred.

Adoption by the Board. The Board, on August 15, 2018, adopted a plan that includes a special assessment of $2,000, payable in two installments six months apart, on each unit and adopt a single fixed increase of $15,000 in annual reserve contributions to begin in 2019 (essentially **scenario 10** in the table). This translates into an **annual** increase of $104/unit in HOA fees.