

HOA PRESIDENT'S INFORMATION SHEET – APRIL 2019

This month's Information Sheet is an extract from the presentations given by the Board of Managers at our April 15, 2019 meeting with all the HOA Presidents. Please distribute it as soon as possible to all of your homeowners.

PRESIDENT'S UPDATE:

Having given the GHCA Annual Meeting audience a description of the assets inside GHCA, this time the focus is on the reasons why the Grand Harbor and Oak Harbor Transition, LLC was formed late last year....in other words, our purpose.

The five of us on the Board of Managers were elected to a two-year term that ends on December 31, 2020 - the day GHCA turns over to the residents. The Developer currently controls the GHCA Board with 3 directors while there are two resident directors. Full control of GHCA and all of its assets will be handed over on January 1, 2021 to a newly elected GHCA Board of five residents. The Developer's only influence after that time is a two-year veto authority over Board decisions. It is very important to note that all assets of GHCA are already owned by GHCA so residents will not be paying the Developer for any of them.

Between now and the turnover date we need to prepare ourselves Organizationally, Operationally and Financially.

Organizationally: the new Resident GHCA Board must be elected and prepared to supervise GHCA, and a new management company must be hired.

Operationally: we will need to have selected all the vendors and contractors who will handle the day to day maintenance and repair of GHCA assets.

Financially: we will need to thoroughly understand all financial aspects of funding and running GHCA.

Most importantly though, our real purpose is all about RESERVES. The Developer has had a continuing obligation under the Declaration of Covenants and its fiduciary obligation as the entity controlling GHCA to establish and fund reserves to cover the cost of repairing or replacing GHCA's assets when that is necessary in the future. It has failed to do so, and we intend to take steps to cause it to put funds in the reserves in amounts sufficient to bring them to the levels at which they should be at the time of transition. Following transition, unit owners, including the Developer with respect to the units owned and unsold or to be built in the future in Grand Harbor, and the owners of units will be expected to pay on a current basis through the dues process amounts necessary to continue to grow the reserves.

Today the asset Reserve Account contains about \$350,000 specifically for eventual road repairs. Our REAL job as the Board of Managers is to pin down that number accurately and fairly and to negotiate successfully the payment of that amount into the Reserve Account by the Developer.

CURRENT CASH POSITION

Member Contributions:	\$102,300
OH Voluntary Contributions:	13,900
Total Contributions:	\$116,200

Legal Expenses:	\$61,200
Insurance:	2,726
Administration:	255
Total Expenses:	\$64,065

Cash Balance:	\$52,135
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Most of our Legal expenses will be incurred later this year and in 2020 while almost the entirety of the \$80,000 to \$100,000 of Engineering expenses that we expect will be incurred and paid this year. We will also have to hire an Accounting firm to audit GHCA financials, but this cost is minor compared to our anticipated Legal and Engineering expenses.

LEGAL COMMITTEE UPDATE

The Legal Committee is chaired by Roger Andrus and Committee volunteers are Bob Gallagher, Wayne Henderson, Alan Polackwich and Charles McGaghey. The Committee's efforts to date have been focused on establishing the legal framework to determine the obligations of the Developer regarding maintenance and reserves of GHCA at turnover.

The Legal Committee has conducted a thorough search for a legal firm and has retained Greenberg Traug, P. A. of Boca Raton, Florida as the LLC's legal counsel. This firm has extensive experience in Developer to Homeowner transitions.

The Committee's efforts have been to review the contracts and other documents supplied to date by the Developer. In addition, they have identified and reviewed permits and other instruments from publicly available databases and those supplied by the Developer. In these efforts, the members of the Legal Committee have communicated with representatives of the Developer, engineering firms used by the Developer, representatives of Indian River County, regulatory authorities and transition and regulatory Counsel.

Going forward, the Legal Committee will continue to focus on reviewing contracts, permits and real estate and obtain title review of all GHCA real property. They will coordinate with the

Operating Committee to review contractual relationships of GHCA with vendors and service providers and will focus on negotiating the terms of a Transition Agreement with the Developer.

OPERATIONS COMMITTEE UPDATE

The Chairman of the Operating Committee is Bob Garrison and his Committee volunteers are Peter Earley, Dave Kelso and Martin Donohue.

The objectives of the Operations Committee are to assess and document the Property Manager operations of the current GHCA and review their current contracts with outside providers and internal clients. They also need to understand all regulatory requirements of GHCA and have in place reporting, renewal and maintenance programs to manage the Grand Harbor and Oak Harbor property. The Committee has met with GHCA Administration staff to review documents and they have received major outside service contracts for review. They have developed a positive interaction with Deb Fletcher and her staff.

ENGINEERING AND ASSET EVALUATION UPDATE:

In accordance with the Covenants, the GHCA must have a Capital Budget each year split between capital that will be spent during the current year as well as a separate amount earmarked for future capital requirements. As described above, the Developer has failed to establish these reserves. The combined budgets determine the annual amount of funds that will be paid each year by homeowners, through their HOA dues, to fund GHCA. The GHCA Reserve Account is very similar to the Capital Reserves that individual HOAs have for future expenses, usually for roads or roofs.

Various developers, and Grand Harbor has had seven since its inception, have always controlled GHCA and all of them should have been building funds in the Reserve Account to provide the necessary capital for future asset replacement. Prior to Transition our Developer has the obligation to transfer GHCA to resident control financially healthy and with GHCA physical assets in reasonable condition. A financially healthy GHCA requires the developer to bring the Reserve Account up to the amount needed as of the end of 2020.

The key questions are:

1. How much will it cost in the future to replace GHCA assets?
2. Based on the remaining useful life of each asset, when will replacement be necessary?
3. Therefore - how much needs to be in the Reserve Account on December 31, 2020?

To answer these questions, we need to know exactly which assets GHCA owns and/or has maintenance responsibility for. We have to determine their current condition and remaining

useful life and we have to identify the future replacement cost for each asset. Our volunteer Engineering and Asset Evaluation Committee has done a great deal of preparatory work but the time has come for us to hire a professional engineering firm to do all the necessary inspections, to calculate the remaining useful life of each asset, to pinpoint the replacement cost and the most likely replacement date for each asset. The final result of their work will be the determination of the amount of capital that should be in the Reserve Account at Transition.

The Reserve Study that our engineering firm will provide us at the end of their inspections and calculations is the single most important product that will come from the Board of Managers work because it becomes the basis for turnover negotiations with the Developer. Our Reserve Study must be comprehensive, realistic, credible and fully defensible. In the coming days we will be announcing the selection of our engineering firm with whom we are now in final contract discussions.

When their inspection work commences, they will provide two-step inspections (both visual and analytic) to such high value assets as roads, some marina sea walls, bridges, tunnels, storm water management systems, the estuary and the network of ponds as well as the pipes that connect them. Other lower cost assets will only be inspected visually. They include landscaping, fences and walls, sidewalks, streetlights and landscaping in our rights of way, GHCA irrigation (including the recycled water reservoir, the Oak Harbor pump, and all other wells, pumps, timers, pipes, and valves involving GHCA), security (guard houses, gates, cameras, scanners), the main fountain and the electrical distribution system.

Our Engineering Committee has reviewed all plats of Grand Harbor and Oak Harbor that are relevant to GHCA, all regulatory permit requirements and has done in-depth research for all the major assets that we need to inspect. Their work has allowed us to have a concise scope of work for our engineering contract and will, hopefully, save us all a considerable amount of money that would otherwise have gone to the engineering firm. The Committee will also accompany the inspectors during their visits. Engineering inspections will start either at the end of April or in early May and a preliminary report is expected in September.

The Engineering Committee Volunteers are Beth Bartow; Vince Donnelly; Bob Gallagher; Art Irvine; Dale Jacobs; Bill Mazzafrò; Len Schiraldi; Phil Schwin; Ken Siedler; John Smith and Paul Zelisko.

CALL FOR ADDITIONAL CAPITAL FUNDING

As explained at our April 15 meeting at this time we need to call for additional capital funding. The first \$100 call for funding was last year (collected this past January) and we know we will have need for \$200 more per residence before the end of this year. Barring unforeseen expenses, we hope that will be enough to carry us through this year and next. Most HOA Presidents indicated that they prefer to collect \$200 now rather than \$100 twice, but the choice is yours.

In advance we thank all Member HOAs for their capital contributions as well as all other HOAs for their voluntary contributions. We believe the investment we are all making now will produce the fairest transition possible and save us much more in the form of contributions from the Developer.

Jeff Caso
President, on behalf of the Board