

Neptune House Owners Association Board of Directors

November 30, 2015

Dear Owners,

Your Board of Directors has been working diligently and exhaustively to analyze the financial condition of the Neptune House and develop a balanced budget that will maintain essential services and provide a pleasant vacation experience. We met with the out-going Board, spent time on Block Island meeting with the Staff individually and as a group, consulted with the resort's accountant, and reviewed the NHOA By-Laws.

Our analysis has revealed a severe financial crisis at the Neptune House. Resolving this crisis requires drastic measures to establish a balanced budget for 2016 and begin strengthening the Neptune House for future years. Proposition 30 will not impact the 2016 Budget. The potential implications and benefits associated with Proposition 30 are promising, and we remain optimistic that it will have a positive impact on future budgets if approved by the owners at the Annual Meeting, targeted for late March.

Our analysis and findings have led us to establish a financial strategy requiring **ALL** owners to work together to solve the issue of years of underfunding. We are owners because we love Block Island and the Neptune House, and we all must share the burden of supporting our resort. We have decreased ongoing operating costs by introducing efficiencies and revising our staffing model. However, there are several areas in need of investment for the future, as a result of which 2016 maintenance fees will increase. These areas are explained as follows:

Management Change

We have decided to hire a Property Management Firm specializing in vacation ownership resorts. The benefits of the expertise, systems, processes, and buying power that a Property Management Firm possesses should go a long way to helping us contain costs and provide financial stability.

With this change, Meredith McAloon will no longer be General Manager of the resort, effective December 31, 2015. Meredith has been contemplating retirement for some time. The Board sincerely thanks her for her many years of service to the Neptune House and its owners. We look forward to her continuing with us as a fellow owner.

Collection of Payments Due

It is each owner's responsibility to pay his or her bill on time. There will no longer be a lottery to choose an owner who pays on time to receive a waiver of the following year's Maintenance Fee. We will aggressively pursue delinquent payers, including collecting late charges and interest, imposing liens, and pursuing foreclosures.

It is not acceptable for responsible owners to finance and subsidize the resort for those who pay late or not at all. Owners who have not paid their October Special Assessments and 2016 Maintenance Fees by December 31, 2015 will be subject to collection actions as described in the Collection Policy included with this correspondence.

Budget Notes

As previously mentioned, there are areas where investments must be made to ensure a balanced budget and establish the foundation for a stable financial future. A summary of the expenses and their contributions to the Maintenance Fees for one-bedroom units is shown below. Similar analyses (different fee values) apply to the other units provided for within the Neptune House.

Budget amount	Fee for one-bedroom share	Component
\$ 542,539	\$ 757	Operating Expenses
\$ 20,000	\$ 28	2015 Special Assessment deficit shortfall
\$ 4,200	\$ 6	Extra Pool Demolition Costs
\$ 40,000	\$ 56	Offset to previously collected and spent 2016 fees
\$ 25,000	\$ 35	Legal Expenses
\$ 8,000	\$ 11	Reserve Study
\$ 71,720	\$ 100	Reserve Fund
\$ 168,920	\$ 236	Subtotal of Adjustments and Investments
\$ 198,100	\$ 276	Bad Debt Expense
\$ 909,559	\$ 1,269	Total Expenses

Operating Expenses

We have incorporated several operational changes to allow the Neptune House to be operated in a more business-like manner. Decreasing the staff and eliminating expenses such as telephones in the living units will save approximately \$60,000, even after taking into account the expense of a Property Management Firm.

Adjustments and Investments

The 2015 Budget was substantially underfunded, and the Special Assessment requested in October was insufficient to cover the deficit. A \$20,000 adjustment is required to cover the balance of 2015 expenses.

The Pool Assessment requested in October was sufficient to cover the basic demolition. Unfortunately, during the process water damage was discovered in the chimney area and this created an additional \$4,200 expense.

During the 2015 Season some owners pre-paid their 2016 Maintenance Fees in order to exchange their 2016 timeshares through Interval International. Additionally, other owners authorized the rental of their timeshares in 2015. The monies collected by the Neptune House were credited to owners' future maintenance fee accounts, but the cash was used to pay expenses in 2015. This early payment only perpetuated the shortfall for 2016. The \$40,000 will be utilized to offset the 2016 Maintenance Fees and allow us to balance the budget.

An estimated \$25,000 is necessary for anticipated legal costs to make changes to our By-Laws and other legal documents affected by Proposition 30, and to recover delinquent payments and conduct foreclosures on non-paying owners.

We intend to hire a professional company to conduct a Reserve Study of the Neptune House. A Reserve Study will produce a schedule showing the useful life spans and replacement costs of the exteriors of the buildings, common areas, grounds, and mechanical equipment. Taking this approach should preclude the need for surprise special assessments for occurrences that can reasonably be predicted. The estimate for the Reserve Study is \$8,000.

Upon completion of the Reserve Study in 2016, a long-term funding plan for Reserves will be established. For now, we want to replenish the Fund with a reasonable amount. The \$15,000 that had been in this fund was put toward the pool demolition work. It fell far short of the \$69,200 required to complete the work. Our funding plan is based on \$100 per share for one-bedroom units and totals \$71,720.

Bad Debt Expense

Although we do not have an exact amount that we can anticipate in Bad Debt, we have studied the past three years in an attempt to estimate the amount. Bad Debt is the result of Maintenance Fees not collected. We will be implementing a new aggressive Collection Policy and anticipate that we will recover some funds in 2016. Whatever monies we recover will create a positive impact on the 2017 Budget.

2016 Maintenance Fees

In the past five years Maintenance Fees have increased only \$30, or an average of about 0.7% per year. Taking into account equipment, supplies, salaries, etc. this increase has been well below industry and cost-of-living standards – especially considering the premium (and greater expenses) associated with a vacation resort on a small island.

We have implemented a new system in calculating the rate for each type of unit (float – 80%, studio – 90%, one-bedroom – 100% and two-bedroom – 110%). We believe that this new structure – rather than the arbitrary \$100 differential utilized in the past – is more transparent and is a better representation of the costs associated with effectively and efficiently operating each unit.

The Maintenance Fees for 2016 are listed below. These increases are drastic for everyone. However, the increases are vital to allow us to balance the 2016 Budget and begin creating a path for a stable financial future. We ask everyone to please pay your fees expeditiously, and we thank you for your understanding and collaboration as we move forward.

Unit Type	2016 Fee	% Increase	\$ Increase
Float	\$ 1,015	47%	\$ 325
Studio	\$ 1,142	45%	\$ 352
One Bedroom	\$ 1,269	43%	\$ 379
Two Bedroom	\$ 1,396	41%	\$ 406

Sincerely,

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