



August 16, 2012

Dear Cottages Homeowner,

Your Board of Directors has been busy this summer working on a number of projects and addressing a number of legal matters that affect all of us. One of the issues we are addressing is the matter of the water usage billing at The Cottages.

Our prior management company, Benchmark, handled all of our bills and payments. The developer had given Benchmark authority to process all payments without Board approval. The Board was simply given a monthly profit and loss statement and income/expense statement for the monthly expenditures. One of our large monthly payments was for water and sewer charges. The Board of Directors began questioning each line item expense and implemented a policy whereby Board members review and sign all checks for payments. The Board discovered that we were actually paying Basil Street Developers for a number of things including water and sewer charges, not the City of Naples who supplies the actual water and sewer services. These findings were just part of the reasons that your Board decided to terminate The Cottages management contract with Benchmark.

For those of you that may not be aware, (note that the majority of the Board was not), The Cottages was originally developed with one master water meter for the fresh water that supplies both The Club and The Cottages. Despite The Cottages and The Club being two distinct legal entities, they share a master water meter. Our assumption is that this was approved by the developer to save money during construction, since the cost of a water meter and the associated "impact" fees would be substantial. It was therefore more cost effective to use one meter, and let the two entities decide how to share the water. The Cottages and The Club was one "parcel" during construction as far as the City is concerned. A small, separate "submeter" was also installed in an attempt to monitor the water usage for The Cottages. Each month, Benchmark reads the submeter and then uses a formula they developed to bill The Cottages. The Board has always questioned the legitimacy of the water bill calculations, and after months of asking Benchmark to provide the formula they are using, we received a spreadsheet that begged even more questions. The Board has always maintained that (1) The Club and The Cottages should have their own separate water meters so that each entity is charged for their actual usage, not some calculated/estimated usage rate, and (B) The Developer should pay for the installation of the second water meter since it was their "short cut" that caused this billing problem.

During The Cottage's Annual Membership Meeting, one owner who was intimately involved in the development of The Cottages asked the Board if we were supposed to pay for water usage. He reasoned

that The Club fees were probably intended to cover the water usage, since it is their water meter. As the Board and the Association's attorney began to investigate this, it came to light that there is no document or agreement that indicates that the members of The Cottages should pay separately for water usage. The Board now believes that The Club fees were intended to cover the cost of all water usage from the master meter. At some point in time, The Club decided to begin billing The Cottages for water and sewer fees which amounts to us being billed twice for the same service assuming that The Club fees are intended to cover this utility.

After several failed attempts to come to an agreement with The Club regarding this matter, the Cottage's Board of Directors decided to discontinue paying separately for the water usage. We notified The Club that the Club dues that are collected from each Cottage owner should be used to cover the water usage associated with The Cottages. We believe this is quite a valid position. The numerous corporations involved in the Naples Bay Resort are all intermingled. The Basil Street entity has declared bankruptcy and is under the control of a Receiver appointed by a court.

If we do not obtain a separate meter for water service, and Knightsbridge declares bankruptcy and/or is closed, or if Knightsbridge stops paying for the water service, we could lose water service or have to pay the entire water bill, including the bill for the water being used at The Club.

I and the Association's attorney recently met with the Receiver and their attorney to discuss this matter. The attorney for the Receiver demanded the meeting with The Cottages and threatened to sue The Cottages if we did not meet with them. We were glad to have the opportunity to meet with these individuals, however we realized during the meeting that we are at an impasse regarding the water usage. The Club's attorney has indicated that they will file suit to force The Cottages homeowners to pay water that (A) May not be calculated in an equitable manner, (B) Is most likely already "paid" by each homeowner in the form of your Club Dues. The Receiver and their attorneys admit that there is no legal agreement for the Cottages to pay Knightsbridge for water usage, but they continue to demand that we do. While we never relish the idea of being sued, this will give us the opportunity to make our case to an impartial judge so that a fair and equitable resolution can be determined.

The Cottages' Board has secured an initial quote for a meter to be installed to provide separate water service. The contractor's base charge is estimated at \$95,000. In addition there are city fees and there will be an engineering expense as well. All parties agree that separate water service is the way to go. Our question is, who should pay for this? We do believe that one of the entities that was involved in the creation and operation of Naples Bay Resort should rectify an improper installation and assume these charges.

We have not yet been served with a suit, but we anticipate receiving it within a few days. Your Board of Directors will continue to fight for each owner's rights to ensure that The Cottages at Naples Bay Resort remains a first class community and that the owners do not incur unnecessary expenses.

Sincerely,

David Edmunds, President  
The Cottages at Naples Bay Resort Condominiums