

June 16, 2017

Dear Shorewood Owners:

Recent issues have arisen concerning Shorewood IV and its required funding (or lack thereof) of the Commons budget that have caused significant discussion and many inquiries of the Commons Board and others. We, as the Commons Board, think you have a right to know what has occurred and what may lie ahead to keep our community the first-class property we want it to be and to keep it financially sound.

The governing documents of Shorewood provide that the complex is organized into four separate regimes, and each regime is obligated to contribute to the Commons budget every month. The annual budget is approved by the owners at every annual meeting. Each owner pays dues to his or her individual building regime and each regime is required to remit monthly payments to the Commons based on the approved budget. The Shorewood master deed apportions each building regime's percentage contribution to the Commons budget. Shorewood IV's portion is 39.68%. The apportionment is based upon the number of units in each building regime. The Commons Board incurs a significant number of expenses, including but not limited to property maintenance, pool maintenance and chemicals, landscaping, trash collection, Miguel's salary and benefits, and many others. Essentially, any expense not borne by each individual building regime is borne by the Commons. These expenses are estimated each year for purposes of preparing a budget for owners' approval. If the annual expenses are less than expected, the surplus is rolled into the next year and may result in a lower regime contribution. The opposite is true if the expenses exceed the budget. In any case, there is NO provision for any regime to withhold payments to the Commons for any reason. This process has been in effect since day one and never has been an issue until this year.

On January 1, 2017, Shorewood IV discharged Atlantic States Management Company and engaged IMC to manage its property. Shorewood I, II, III, and the Commons remain managed by Atlantic States Management. As of June 13, Shorewood IV had not paid its dues to the Commons Association since December 2016, and as of June 13, it was approximately \$74,000.00 in arrears. Shorewood cannot continue to function as it has without Shorewood IV's financial contribution, which up until this past Tuesday, created a \$74,000 shortfall. If these issues continue to occur, it may affect the viability of services and amenities Shorewood provides.

Shorewood IV retained counsel and asked to review certain documents and information, which Atlantic States provided. Atlantic States has been in regular contact with the Board of Directors of Shorewood IV and its counsel to attempt to resolve Shorewood IV's financial delinquency. Shorewood IV's Board and its counsel were advised that if payment was not received by 3:00 p.m. EST. Monday, June 12, 2017, then the Commons Board would retain legal counsel to pursue collection and other potential forms of relief. Shorewood IV did not make its payment by the requested deadline, so the Commons Board held an emergency meeting June 13, 2017 at 8:00 am to address these issues.

Just before the Commons Board was about to send a letter advising the Shorewood community of these events, Shorewood IV made a *partial* payment of its obligations to the Commons budget, but withheld management fees to Atlantic States that had been discussed at length, voted upon, and passed 5-2 by the Commons Board at a meeting on April 18, 2017 requested by Shorewood IV director, David Shleffar. At the Commons Board's insistence, those funds have been escrowed in the trust account of Shorewood IV's attorney, apparently for further dispute.

Unfortunately, if these disputes and non-payment of Commons obligations continue, it is highly likely the Shorewood Commons Board will have to retain legal counsel. According to the Shorewood Commons Bylaws, Section 8e, money for litigation and legal expenses are not included in the budget, and the Bylaws require the Board to assess Shorewood members for payment of legal expenses. While we plan to seek reimbursement from Shorewood IV for any legal expenses the Commons Board incurs, all of you should be aware that because of this continuing problem, you may receive an assessment for legal expenses on this issue in the future.

You also should be aware that when a Shorewood unit is bought or sold, the closing attorney sends Atlantic States Management a questionnaire concerning whether any amounts on the property are due and owing that would create an unclean title. Because of this issue, Atlantic States cannot affirm that units in Shorewood IV are current with their obligations, even with the partial payment. This means no Shorewood IV unit can be closed or refinanced if a clear title is essential, and it almost always is. While we await the advice of our legal counsel, we anticipate that a lien or liens will be placed against Shorewood IV as long as Shorewood IV's obligations remain outstanding.

We write all owners in Shorewood because these occurrences stand to affect all of us, our property values, and our reputation as a Hilton Head community. Shorewood I, II, and III have been and remain current with their obligations to the Commons Board. The decision for Shorewood IV to withhold payment appears to have rested in the members of the Shorewood IV Board. As we understand it, the current members of the Shorewood IV Board are as follows: David Shleffar, Stan Philips, and Rick Heath.

We will continue working with Shorewood IV's Board to hopefully resolve this issue in the near future; however, we, as the Commons Board, felt circumstances had reached a level that warranted advising each of you as owners. Thank you.

Sincerely,

The Shorewood Commons Board