

**Strata #25 Annual General Meeting
June 23, 2005
The Sands at Grace Bay**

The Annual General Meeting was held on June 23, 2005 at The Sands at Grace Bay Hospitality Suite.

In attendance:

Board Members:

Stan Hartling, Chairman
Richard Long
Linda Harper
Catherine Caldwell

Owners:

Judy Long
Robert Demers
Craig White
Julie White
Sylvia Reul
Michael Loeffler
David McLean

The Sands:

William Anderson, Managing Director
Pierre Beswick, General Manager
John Shaw, Director of Engineering
Veer Pudaruth, Financial Controller
Joan Hagan, Director of Owner Relations
Johnny Steplin, Maintenance Manager

The meeting began with a welcome from the Chairman, Stan Hartling. An introduction of all in attendance followed.

Financial Overview/July 2004-December 2004/Veer Pudaruth

Veer reminded everyone that the financial year has changed to January to December. Veer reviewed the 6 Months Income Statement July 2004-December 2004. Of the special assessment income, \$200,000 is allocated for Capital Expenditure and \$29,000 for hurricane expenses. All in all, the net surplus was \$24,761 which is at par with 2003, but under budget.

Veer explained that due to the conversion of the property management system to Visual One, some of the line items could not be classified the same. The General Ledger items

are coded the same, but some of the line item allocations are different. Veer explained that it all balances out and does not affect the bottom line.

Michael Loeffler (ML) questioned the payroll. The total amount budgeted was \$109,000, however, the actual amount was \$125,000. Maintenance payroll was the biggest variance. VP explained that this was due to cross-using personnel to keep expenses down i.e. staff were pulled from landscaping to attend to maintenance and landscape issues hence the lower landscaping payroll compared to budget. Sylvia Reul (SR) questioned as to why the budgeted amount for payroll was lower than the actual payroll amount for last year. SH explained that many of the variances are simply due to the reclassification of the accounts in the new accounting system and until we have a full year of accounting information, irregularities will exist on an account by account basis. At the present moment overall wages for the property are still in line with previous years. Craig White (CW) stated that when you change to a different PMS system as we did, you should expect certain classification changes.

A question was raised in relation to John Shaw's salary over the past 6-8 months. It was highlighted that his cost was largely allocated to The Palms. This will change in the upcoming year as John becomes more involved in The Sands capital works and maintenance programs. SH stated that John Shaw's salary was borne mostly by The Palms to date. William Anderson (WA) stated that it is very difficult to find qualified people which explains the significant wage increase. Linda Harper (LH) asked if we are seeing trends in 2005 and asked how we begin to track those trends. SH highlighted that this will become more apparent in upcoming years based on having a standardized chart of accounts and a separate CAPEX budget so as to avoid mixing capital items with operating expenses.

LH suggested a motion to accept the financial report for June – December 2004. SH asked if there were any further questions before putting motion forward.

SR inquired about the \$7,213 expense for Employee Relations. WA stated that this expense was the Employee Christmas party, and the Employee of the Month program as well as regular staff events which are prorated with the management company based on the number of employees. He further explained that previously this would have been included with another line item, but due to the system change, it has been reclassified.

Robert Demers (RD) inquired about the \$200 allocated in the budget for training, however, we didn't spend any of the allocation. Additionally, it was explained that training was allocated in staff benefits or had been paid by the management company. WA explained that they had hired Pierre Beswick (PB), who is extremely talented and has a very strong background, as General Manager instead of doing formal training and incurring the expense of bringing in an external person just do the training.

David McLean (DL) expressed concern that the balance of expenses may not be fair for owners of Strata Corp is paying for all expenses such as managers etc. He also wanted to know if the Strata Corp was getting credit for the areas used by the Management

Company. SH stated that the statements represent correct assessment, and that there are almost no direct costs in the Strata Corp. statement. All costs for managers such as Mr. Anderson, Pierre Beswick, Joan Hagan, Veer Pudaruth, were in fact paid by the Management. There is no cross-mingling of management company expenses in these statements. The management company pays the strata fees for areas such as office, lobby, restaurant, etc., just as owners do. SH continued that the management company paid \$25,000 for water sports equipment, but did not charge the expense to the owners for example.

LH reminded everyone that any Oceanside Marketing or Resort operation issues need to be discussed following the formal Board Meeting, and are not part of the Strata Corp. scope.

SR questioned who is responsible for the expense of work permits for Joan Hagan and John Shaw. SH replied that Joan Hagan's work permit was paid for solely by Oceanside Marketing, however John Shaw's work permit is cost-shared between both Strata Corp and the management company.

LH again made the motion to accept the financial statements for June 2004 – December 2004, Proprietors Strata Plan #25. RD seconded the motion. A show of hands was asked of those present and all accepted.

Interim Review:

The Sands Strata Income Statement January 1, 2005-May 31, 2005

VP explained that the "Special Assessment – Insurance" expense is for hurricane insurance, and liability coverage, as well for the D&O Insurance of the Strata Corp. SH advised that in order to ensure that the coverage for the owners was being maximized and procured in the most efficient way, an insurance consultant from the United States was hired by the name of "Independent Insurance Advisors".

SH advised that each owner is named on the insurance policy. ML & RD requested a list of the insurance companies listed on the policy and copies of the correspondence with Independent Insurance Advisors. SH advised that a great deal of time was invested by the management company in order to revamp the way in which the insurance valuations and coverage are contracted. Without any change, The Sands would have faced a large potential increase this year due to hurricane activity.

In order to be able to reduce the insurance by taking a large deductible, the management company was able to break down the amount estimated into exterior valuation, and individual interior valuations. This deductible, while higher on a percentage basis, now will apply but to a more segregated schedule of values.

ML & SR inquired why the percentage of payroll in the budget is lower. SH asked VP to do a historical true trend in the future. SH inquired as to the high amount of overtime. VP explained that we did not have adequate staff available on island during peak season and our staff had to do overtime. WA reiterated that we cannot find Turks Islanders to

fill some of the vacant positions and for the owners to expect expenses for work permits for ex-patriots to increase.

LH inquired as to why maintenance, pool and beach, and landscaping are so far under budget i.e. she commented that while the property looked excellent, she wanted to be assured that there was nothing not being attended to on the property.

VP stated that maintenance budget includes security, but should be segregated and this expense is recorded separately. He further explained that there was a \$45,000 allocation Engineering expense was for John Shaw and Terrance Williams. However, because they had not had to spend as much time as budgeted at The Sands, more of their expense was allocated to The Palms. Therefore, this area was under budget for this period.

WA reminded those present that occupancy so far is 15 points (not percent) above last year and we have a lot more need for pool and beach staff due to this occupancy.

SH stated that the income for maintenance has increased due to the increase in necessary work orders for various units.

He explained that 100% of the revenue received for the work orders goes directly back to the owners via this account. SR stated that the grounds look better than ever and was pleased to see that the expenses are down.

SH stated that we are looking for a horticulturist for the resort, which will be cost-shared between The Sands/The Palms and the owners. SH reminded those present of the pending lawsuit between the Strata Corp and the former Landscaping Supervisor. SH stated that although the management company is absorbing all of the legal costs for this litigation, if there is a financial settlement, it will be with the Strata Corp. ML asked why there was not an allocation for the settlement. SH agreed that perhaps that should be included in the statement. However, because the case facts are so well documented, he is hopeful that any potential settlement will be minimal. SH stated that this particular case is the last case to be heard by the Magistrate. All cases are now heard by the Labour Tribunal.

LH asked how do we bring down the issue of the utilities being over budget at the midway point instead of addressing this at year end. Catherine Caldwell (CC) asked VP to compare the actual usage in kWh from last year to this year's usage so that we can isolate any variance in usage versus increases caused by larger power cost increases over the past 12 months. SH asked VP to pull the actual kWh on the meters for the common areas and look for any variances.

JS stated that as you repair and fix certain major equipment that is aging you will see a decrease in consumption. So far this year, we have had the lift station and two motors go out. In situations such as these i.e. a motor burning out, it will use more power than normal as it ages. LH stated that the utility numbers make her very uncomfortable as rate

increases are still unknown and likely to go up, and would like to know how we are going to address the situation.

SH stated that he is looking for a person to monitor the meters and catch any areas of concern. This person would be cost shared between management and the owners. SH asked for a full analysis of the meter readings for the past six months and requested that that information be provided to the Board. In the meantime, it is not possible to change assessment. Therefore any variance must be dealt with at year end.

Proforma Budget:

Maintenance income is higher due to an increased requirement for work orders as units age. Also, income from work orders was not posted for two of the months in the preceding period and is now posted. The income for utilities has also increased. SR asked if we could include 2003 numbers for payroll comparison. SH asked VP to break out Security from Maintenance. SH stated that previously the management company absorbed some of the cost for cleaning the common areas as management company employees like bellman, were periodically used for this task. These roles are now segregated and that cost is now being tracked and properly billed to the owners. She to be assured that this was not a shift of expenses previously borne by the management company are now being charged to owners. She stated that while this was the best year ever for ROI for the owners which is very good news, SH explained that this was not the case and that this role would have always been under the responsibility of the Strata Corp. SH stated that we have increased our level of services provided to our guests so some roles are more segregated now.

LH asked if in fact that was enough for hurricane prep, and JS said it should be adequate based on 1-2 storms as the \$29,000 amount from last year included prep and damage repair. No allocation is made for potential storm repair.

SH stated that we only incurred \$29,000 in damage compared to the Ocean Club that had \$400,000 in damage. SH congratulated JS and Johnny Steplin on their preparation and proactiveness.

LH questioned the elevator allocation. The elevator needs to be completely renovated and replaced. LH requested the expense for water be reduced to \$20,000 as it was last year and SH agreed this should be the goal.

Julie White (JW) asked that additional funds for additional gym equipment be added. SH asked ML to be involved in the renewal of the insurance policy.

LH made the motion to accept the Proforma Budget as preliminary with the intention to have the Board formally adopt the budget in the December Board Meeting. SR seconded the motion The Proforma Budget will be amended and the work permit allocation will be reduced from \$10,000 to \$5,000 and the water allocation will be reduced from \$24,000 to \$20,000. The budget will be finalized at the Board Meeting in December. This motion was seconded by SR.

Capital Expenditure

Pierre Beswick (PB) stated that the chaise lounge chairs and new cushions are now in place. Also, new umbrella stands have been installed and they will not rust.

JS stated that Island Fire Supplies has been contracted to replace the mother boards for the fire alarm systems in each building. JS stated that we will be forced to upgrade the system as the Fire Marshall is insistent that systems be upgraded at resorts. In doing so, we will spec a system that now can be serviced by a local company.

Election of New Executive Committee

SH announced that CC will be leaving the Board. A motion to replace CC with CW was made by Richard Long (RL). The motion was seconded by SR. A show of hands unanimously approved the nomination. SH offered to step down from the position of Chairman to allow another Board Member to assume this role. RL made the motion to re-elect SH as Chairman. LH seconded the motion. A show of hands unanimously approved the re-election.

It was decided to appoint CC as Director of Finance for the Strata Corp as it is strongly preferred to have two signatures required for all Strata Corporation Checks and CC would be ideal as she lives on island. It was agreed that VP would arrange to have her retained on the D&O insurance while she acts in this capacity. CC kindly offered to take on this role without remuneration.

Old Business:

At the last Board Meeting it was suggested to have an audit of the financial books of the Strata Corp.

SH abstained from the discussions as well as the vote on this motion for conflict of interest. He assigned all rights to vote under his proxy to the other board members.

KPMG estimated approximately \$15,000 annually to do the audits. However the first year costs would be higher. It was mentioned that the majority of the costs are contained within 3-4 main cost categories and are easily verifiable. Additionally, the Strata Corporation account requires two signatories which also adds a level of internal control. After discussion of the actual benefits derived in relation to the audit of the various expense categories, it was generally felt that the audit was not worthwhile when looking at the cost versus benefit.

SR made the motion not to have an income audit. All those eligible to vote either by attendance or by proxy, were affirmative with the exception of ML.

Tomorrow, June 24th, the Board will tour the property with JS and WA.

The date of the next Board Meeting will be decided by the Executive Committee. The date to be approximately in December.

SH raised the question as to whether anyone felt that the date for the Annual General Meeting needed to be revisited. After general discussion by those in attendance, it was agreed that late June was still the preferred timeframe and that the Board had not received any large numbers of requests to change the date to another time of year.

A draft Capital Replacement Schedule was circulated for discussion in order to allow for the creation of a more detailed document that will give an indication of how much capital reserve should be set aside each year. LH pointed out several areas that needed amendment in the draft schedule. JS noted all comments and will prepare a revised schedule for review in the December Board Meeting.

It was agreed by the Executive Committee, those in attendance at this meeting and by proxy, to formalize a decision to allow for an ongoing assessment of approximately \$.10 per square foot per month commencing January 1, 2006, specifically to be used as a capital works fund. The Board will make a determination based on the full requirement based on the future CAPEX project requirements. Furthermore, the Board will be requesting feedback from owners between now and December.

CW made this motion and RL seconded it. A show of hands by the Board unanimously agreed.

As there not any further old business to discuss, SH asked if there was any new business. SH stated that we are slowly losing rental program participants through resales which the Management Company cannot control. He further stated that participation in the rental program increases the value for all owners and that a continued reduction could jeopardize the rental program that greatly affects the ultimate condo unit values. SH asked if anyone had ideas on how to make it a disincentive to remove themselves from the rental program. A committee consisting of SH, ML, SR, and CW was formed and will evaluate the situation and look for options.

As no other new business was brought up, SH moved to adjourn the meeting.

Meeting Adjourned