

The Sands at Grace Bay Strata Corp Board Meeting

Strata Corp Board

Dolores Rogers, Chairperson
Linda Harper, Board Member
Judy Long, Board Member
Kevin Cross, Board Member
Stan Hartling, CEO and Board Member

The Sands Management

Pierre Beswick, General Manager
Mike Michaels, Chief Financial Officer
Karen Gardiner, Financial Controller
Joan Hagan, Director of Owner Relations
Marc Romkey, Commercial Asset Manager

Dolores Rogers (DR) opened the meeting at 8:38am.

Review of the Minutes of the Annual General Meeting held on June 17, 2010

The Minutes of the Annual General Meeting in June were reviewed.

Linda Harper (LH) made the motion to accept the Minutes. Judy Long (JL) seconded the motion. A show of hands was requested and unanimously approved.

Review of Financial Statements – Strata Corp Year to Date as of November 2010

Review of Strata Income Statement

Total Income was \$1.499m vs. the budget of \$1.520m resulting in the difference of \$21,764.

Total subcontractors [costs] decreased as we used our own staff in off hours instead of using subcontractors.

NHIP – Service charge was originally included in our budget but the Government has decided not to include service charge paid to employees in the tax calculation.

Cell telephone expense – this will now begin to decrease as we renegotiated our contract with LIME and we now participate in a group calling plan resulting in significant savings.

The Corporate Allocation expense is for Derek Grant who works for Maintenance and Engineering.

Treatment plant supplies – the treatment plant is working more efficiently and so reducing the need for additional maintenance and supplies.

Hot tub propane – we have been able to reduce this expense as a result of the very hot weather.

Income from Maintenance – We have nearly completed changing all of the safes and not very many hot water heaters so less revenue. The Bathrooms are in dire need to be done. This project will include grout, tubs, mixers, travertine tiles. The cost will be approximately \$2000 for standing showers, \$2500 per tub shower. Once details finalized Joan Hagan (JH) will send a notice to all the owners informing them of the mandatory upgrade.

Income from Utilities – This is down considerably. A significant water leak was detected at the entrance of the property and we have Provo Water Company involved in trying to resolve the issue. Pest control expense is high as there are rodents running on both sides of the resort and they run from any shelter they have to the resort. The cost for this was \$300 per month by Truly Nolan. However, they are not very reliable. Now we do the pest control ourselves as we cannot afford to have guests encounter these rodents. One other very sensitive issue is bed bugs. As we all know this is a major issue in United States. As a preventative maintenance measure we will now be having a [professionally trained] bug sniffing dog go through all of the units. This will be done semi-annually. The cost to do this is approximately \$1700 to do property and approximately \$300 in miscellaneous expenses. The dog's name is Radar and he also inspects the Palms.

The reason for the higher expense in Common Area was due to a leak in Hemmingway's ladies bathroom stall toilet. DR commented that the sink faucet leaked for quite a while. The problem is now fixed.

Pool and beach expense was down due to vacation timing [expense incurred by the staff there].

Common Area Maintenance – this expense was higher due to a fissure leak in Hospitality Suite.

Pool and Beach Power – was over budget due to the increase in the fuel factor that is added to the PPC power bill.

Gym equipment – this was over budget as it is very expensive to keep the equipment properly maintained. There was a suggestion by SH that there is a serious need to look at some form of proposal for a new gym facility. Gyms are becoming a major part of guest experience requests and we could place ourselves well ahead of others by having an above ground natural light gym facility. To be discussed at the June AGM.

SH explain negative Income in utilities. Unfortunately we did not bring in as much [contribution margin] as anticipated in water due to the leak. The leak cut in to profit budgeted.

Pierre Beswick explained the Bonus expense – For every year of service employees earn \$100 as a bonus. This has a 5 year cap.

PB asked if there were any questions relating to the Income Statement: LH asked regarding staff relations: does the staff understand that they are being utilized instead of using outside contractors. This should be made clear to them as they are being offered the opportunity to make more money instead of us using outside contractors. The Pool and Beach staff understand, but some other areas do not.

Kevin Cross (KC) asked what the difference between holiday and vacation pay is. PB explained that employees are paid for 12 public holidays, and that vacation is 2 to 3 weeks per year based on years of service.

KC asked why there were no legal fees this year and PB explained that the previous situation was rectified and there was no requirement this year for counsel.

Balance Sheet

Mike Michael (MGM) stated that the actual cash in bank is higher this year. The \$142,000 represents the Reserve on the CAPEX.

Accts receivable amount is the result of nametags replacements for the staff. If the staff loses their nametag they must pay for the replacement.

Inventory – this amount will always fluctuate. Hurricane supplies higher due to preparation for the unexpected hurricane in November.

KC commented that it seems like a lot of inventory. SH stated that it has[been at this level for some time as the team now keep a broader range of spares to avoid rush purchasing and down time costs. We must hold these items such as pumps etc. There are 20 pumps on the property and must always have a replacement.

Inter-Company Account – MGM stated that this fluctuates all year round depending on what OSM supplies are needed for Strata.

NHIP amount will be paid out in December.

MGM stated that the CAPEX Reserve is \$158K compared to \$72K last year.

PB asked if anyone had any questions. SH explained prepaid insurance. This is due to the Kubota, hoby cats, boat, and wind surfers that all have prepaid insurance. There is a charge of \$547 per month for the insurance for the boat and Kubota. The Kubota had not been budgeted for insurance. SH stated that the Palms has a rake that is almost beyond repair and is if the Board wants to explore sharing ours and thus possibly recouping some of the expense. DR asked if that is going to put more wear and tear on it. LH agreed. SH stated that it shouldn't if maintained properly. LH suggested a separate discussion to see if this would be a good idea.

DR asked for motion to approve the Financial Statements. JL made the motion and LH seconded the motion. A show of hands was requested and unanimously approved.

Proforma Budget 2011

The major difference in the Budget is the Special Assessment for property insurance. The insurance quote was reduced down to \$0.823 vs. \$0.893 last year which was \$400K last year to \$374K this year.

Payroll is budgeted to go up this year as we have several employees that are very good and truly deserve increases despite the Recession. LH stated that they are seeing in the US that companies are giving bonuses instead of raises as the economy is so unstable and this way you are not locked in to a specific rate.

KC asked if the benefits are government or hotel based. PB explained that this is \$4/day for meals, maternity leave etc.

Total payroll budget has been increased by \$20,000 due to salary increases, bonuses, etc.

PB reiterated that the major variance in the Budget compared to last year is insurance.

This Budget would result in a negative balance of -\$43,000.

Increase in Strata Fees – this subject has been discussed previously.

MGM distributed Proforma budgets {one} with a 5% increase resulting in an increase from \$7.26 to \$7.62 in a negative balance of -\$4600; an 8% increase to \$7.84 resulting with a positive balance of \$20,000; and a 9% increase to \$7.91 with a positive balance of \$27,000.

It was reminded that we have not increased Strata Fees since 2008. We have had 3 full budget years that we have not increased the Fees. Had we done this annually like most resorts, we would have increased the Strata Fees by 10% by now.

DR asked what the increase would equate to for say for example a studio. PB stated that this would be approximately \$42 per month increase. This is calculating using 9% increase.

DR asked how the owners are going to be receptive to increase in Strata Fees and having to have their bathrooms redone. This will be done in the same manner which we did the mattress replacement. Owners will be notified in the same manner. The upgrade of the bathrooms will be done for each full bathroom. We will start with the worst ones first.

LH suggested doing 8% this year and then 3% onwards which is the normal increase per year.

KC stated that a balanced budget is the way to go, but do we really need to have a surplus? What is actually needed to balance the budget?

PB will find exactly what percentage will be needed to balance the budget and then possibly increase annually as needed.

LH suggested that any surplus should go to the CAPEX for future requirements such as new roofs. All agreed.

PB to find the percentage not less than 8% no more than 9% to balance the budget. MM stated this should be approximately 8.7%.

LH made motion to accept the increase and the budget. JL seconded the motion. A show of hands was requested and unanimously agreed.

Capital Expenditure

PB explained that the mother boards on some of the gym equipment needs repairing.

The walkways left to be done are by Building 1, Building 6 and between Buildings 2 and 1. PB then asked which path the Board felt was most important.

Marc Romkey has installed 2 soaker pits [at the main entrance to the resort] but even though done, with very heavy rains still not good enough.

Additional Pool and Beach loungers are going out now. Redoing some of the palapas with synthatch.

LH stated that the infrastructure of the palapas needs to be supported better. This was pointed out last year, but the work was not sufficient. DR suggested new frames. SH suggested doing this at night rather than doing during the day as they need to be reset. PB and MR to handle.

KC stated that the external doors to the units are rusted badly and this is the first impression to the units. This is predominantly in Building 3 on the 3rd floor. SH stated that the replacement of the door frames should become one of the items that we start to research a solution and start to implement replacement with a different type of handle that can withstand the elements. He asked that by the next AGM, PB to have proposals to put to owners to replacing all the door frames.

PB stated that in the Gym, the elliptical and stair master are almost beyond repair and there are several places on the island that have good quality used equipment for sale. We are going to see about getting them from other projects that are no longer operating.

SH would like to eventually create an above ground wellness facility. KC also suggested having a full time attendant with possibly fitness instructor.

PB again asked which pathway the Board would like to see done next. JH suggested that we do between Buildings 1 & 2 as many owners in B2 have commented that they would like it done. DR asked if we have enough budgeted do to both? MR to measure and see. Last one done would be the Building 1 pathway to the parking lot.

SH would like to discuss using funds elsewhere i.e. beach access by B3 by replacing rope, entrance, bins, etc to get it looking it did years ago. So many of

the units look over this area. We don't want to wind up like other resorts with just a big parking lot next to it. The management company would contribute to this expense as well. SH also added that this will also help from a security standpoint.

SH – suggested sharing a wood chipper with the Palms instead of taking the dead wood to the dump and making our own mulch.

We have made great strides regarding the water pressure issues and this resulting in a major savings for the resort. Johnny Steplin was very instrumental in finding the issue. There were half open valves that weren't closed properly and seized and clogging the flow as well as debris in the main meter components.

SH stated that there was a dramatic increase in crime and violent crime on the island and as a result a Special Crime Committee was formed. The Committee selected 4 or 5 main objectives and that the focus would be on Grace Bay. It is formally named the Tourist Safety Committee. The main objectives are Lighting on the road on Grace Bay, centralized CCTV cameras from Gansevoort to golf course, legislation changes for increased penalties, and bush clean ups.

SH further stated that they are coordinating sections to clean up. 60% of the road lighting doesn't work as it is so expensive to fix the lighting. They are looking to convert to LED and working with PPC. LH is working with a company in DC that is doing this. CCTV: HAB group has done study to have done. Many Strata Corps have already committed to doing this i.e. Grace Bay Club, The Palms, Gansevoort, our management company and SH would like us to participate as well. The committee is more of a Zero Tolerance committee. They are suggesting taking away the right to bail and for serious crimes, the defendant would go to a supreme court instead of local court. They want to make it simple. Did you have a gun? If so, now it is a 5 year minimum sentence. This has already been legislated and initiated. Since the formation of the committee and implementation of certain key initiatives with the police force, there has been a dramatic drop in crime.

SH would like to propose either to take the funds from our existing CAPEX or through a special assessment. The cameras suggested would be on the property. SH would like to be able to contribute \$10k from the CAPEX and the Management Company would contribute \$5k as well. The cameras we have are by the front desk and by human resources going in to accounting and we would also be installing a buzzer system.

PB would like to put a camera on the pole where you either drive to lobby or go towards Hemmingway's. KC strongly agrees. JH to do a newsletter to the

owners regarding security. LH asked what is the support from the small businesses to contribute to this. SH stated that the committee will be approaching the small businesses to contribute but in order to expedite the process the capital was be mostly from the small hotels . Once installed this will need to be maintained and this is where some of those funds can come from.

LH commented on the gazebo cost of \$750. Is that enough? There is a big piece of plywood and pieces of boards laying up there.

LH asked if the new recycling program is going to be an additional cost. PB stated no, it will be broken down elsewhere.

LH asked if there was a going green initiative. She asked if we considered using the energy saving lights. PB stated that in some cases we have depends on what kind of mood you want. This subject will be discussed later in other business.

LH suggested using 2011 to do research on going green initiatives and being ready to go forward in 2012 with these.

SH would like to make an allowance to have a consultant to come in and give a proposal of what to do i.e. power consumption, water conservation, etc.

LH would like to make a motion that we add up to \$5K energy conservation and consulting and to put \$10K towards the security component dependant on Oceanside marketing putting at least \$5K as a match and adjust budget and approve. JL seconded the motion and a show of hands was requested and unanimously approved.

SH also stated that there should be an adjustment for beach palapas and upgrading beach access.

PB will adjust \$15,000 MEP to \$7k and give \$5,000 for Bionest system consulting research and \$3000 to beach access enhancement.

New Business:

KC asked if the pillows are the same for each unit. PB explained that yes, they are. KC said huge difference between his unit and the one he's in now and feels that this is a luxury issue. Additionally KC asked about creating an adults only area and has this ever been brought up for discussion. PB stated that a suggestion would be to possibly making the hot tub area adults only.

LH asked for pros and cons of this and if it were feasible or not. She also asked what kind of feedback do we receive from guest comment surveys.

This issue to be discussed at further meetings.

LH thanked Pierre for the instructions for using the guest room phones. She also commented that both Housekeeping and Landscaping are in very good condition. However, the raking of the beach is not being done properly and it needs to be done better.

No further Strata items. Meeting officially adjourned at 12:47pm.

The next Annual General Meeting will be June 23, 2011.