

Strata #50 Strata Board Meeting
Friday, June 8, 2007
The Regent Palms

The Annual Board Meeting was held June 8, 2007 at The Regent Palms.

In Attendance:

Board Members:

- Tim Webb, Chairman (TW)
- Stan Hartling (SH)
- Catherine Caldwell (CC)
- Tim Webb (TW)
- Doug MacKenzie (DM)
- Peter Kirby (PK)

The Palms Resort Management Co:

- Darren Law, Managing Director - asset management(DL)

Regent Hotels:

- Diderik Van Regemorter, General Manager (DVR)
- Jennifer Wardle, Owner Relations Manager (JW)
- Patrick Van Hamme, Chief Accountant (PVH)

The meeting was opened at 8:40am with a welcome from Chairman, Tim Webb.

Tim Webb (TW) asked if all were in favor of approving the minutes. A show of hands was requested of those present and unanimously accepted.

Review of Financial Statements – Year to date as of April 2007

Diderik Van Regemorter (DVR) explains the reasons for the slight increase in revenue to budget.

Pool & Beach

- The pool repairs are ongoing. There are pool engineers here and they hope to find where the leak is coming from today. We have also had some water sports repairs including the hobby cat sails and the rescue boat engine
- Stan Hartling (SH) asked are we getting a reconciliation on water, DVR answered yes.

Payroll

- Payroll expenses in administration are below budget. This is mainly due to turnover and being short staffed.

Insurance

- DVR Total administration expenses are higher due to the insurance however we have saved in other areas.
- Patrick Van Hamme (PVH) discussed the increase in the insurance. Although the revenue assessment for insurance increased, there is no effect to the net income because there is a corresponding increase in the insurance expense. The Management Fee in the insurance assessment was voluntarily capped by the Management Company for 2007 so the Management Company did not benefit from increased insurance premiums.
- DVR – Expenses are all to be put into the accounts where they should be. We are now getting a better idea of what expenses we actually need and where they should be.

Security

- There has been an increase in crime and we are looking to increase security.
- Doug MacKenzie (DM) is going to give DVR information regarding a high resolution security camera

Building Maintenance

- Maintenance is higher to budget overall. Maintenance is running at full staffed. Grounds did not have full staff last year. We needed a full staff this year for grounds for the building cleaning. Tim Webb (TW) What did it cost to clean? DVR The cost to clean the building was \$12K-\$13K in chlorine + labor. Approximately \$20K – \$25K all together.
- TW How often will need to be done? – DVR We will wait until our occupancy drops a little lower as scaffolding will need to be put up around the buildings. The scuppers are to be extended which will somewhat alleviate the problem. SH will install scuppers and an extension on the awnings to help with the problem. SH would like to propose that the development company contributes 1/3 of the cost of cleaning the mold off of the building until such time as the permanent solution of extended scuppers has been installed. On a positive side, we do not incur painting expense on the coral stone which would normally have to be done regularly on busu area and SH pointed out that we would always have to do some cleaning, just based on the natural qualities of the stone. However on behalf on the development company SH will invest a third of the expenses.
- All the ground around the retail shops and restaurant are being sprayed to kill mould.
- Areas that we have not had opportunity to seal properly, have turned black a lot quicker.
- We are cleaning, staining, sealing as a preventative measure at the moment.
- The scupper extensions & awnings are the long term solution. SH to find out time frame on long term solution from Paul Scott.
- DVR Late Aug and Sept due for scaffolding
- Development company to pay for scupper extensions
- DVR Grounds men are now cleaning all the common areas, therefore this moves a little revenue from Housekeeping and adds to Maintenance.

Landscaping

- Mulching – We have started getting the mulch from Miami. Another container is on the way. We need to keep rotating the areas unless we decide to go with new mulch that is rubber.
- DVR thinks we should look at a new rubber product as the main expense is shipping and it would have a longer life span. DVR is investigating into the expense at the moment.
- DM – Be aware that the rubber mulch doesn't leach into the environment

Elevator assessment

- DVR Elevator repair – An assessment was done in July 06. We entered into a service contract. The elevators need \$60,000 in repairs. We made an agreement that we

would go with \$500 per elevator per month. We will have \$13,000 worth of parts at the hotel ready for when they come and service and for an emergencies.

- Agreed to make one investment and build a \$7000 reserve in parts for emergency.
- We have \$13,000-\$15,000 worth of parts coming.
- Contract includes 800 man hrs at a low rate to install all these parts.
- Something in the shaft broke in building 5. Had to shut the elevator down from 10am – 9pm.
- DM – Building 1 is noisy. DVR will ask elevator people to have a look
- PK Agrees with new elevator maintenance program
- SH – Elevator was the best they could get on the island and was not ignored. DVR agrees that it was the best that was available however we still need to work on them.

Espresso Maintenance System

- DVR Espresso is being installed. It is a preventative program & work order system via telephone access that will go straight to Maintenance. It has option of whether it's a guest call or a staff call so it will prioritize and will keep beeping until job is closed.
- SH – Suggests using storage under the pass through area for cushions etc to avoid staff using elevators so much in building 1. DVR to do an analyst to see how much it's used and what alternatives we have.

Fire regulations

- Fire inspection has been done as it hadn't been done for a while.
- When power was restored after a black out recently, it blew 4 of the fire mother boards. \$1300 spent on a surge arrester to prevent blow out again.
- \$4800 for fire boards \$3250 for inspection & surge arrester \$
- Building 2 \$1300 for a fault in the alarm. Kept going off

Sewage

- Somerset has not paid us anything yet towards the sewage plant. They owe \$68,000 for last yr alone. The Sewage treatment plant was created as a cost centre, of which Somerset is to pay 30% of the costs.
- SH Somerset should also be paying a capital contributions. PVH to prepare the invoices to Somerset and also invoice them for a capital reserve.
- We have had problems with compressor, have had to do some pumping,
- SH made a motion to formally put Somerset into default under the agreement.
- PK – Motion to default due to not meeting their contract. Failed to pay despite multiple requests. Motion was seconded.
- SH – Said the Somerset can not advertise they have a spa and were given a written warning. If DVR sees an add, he is to inform SH and SH will deal with it.
- DVR will read terms in the contract and address all issues.
- DVR Somerset was dumping the grease in the drain which was backing up our plant.
- SH - We should have our maintenance team inspect their grease traps. DVR will address this Somerset.
- PK Suggests being very aggressive and to follow the letter of the contract.
- SH - If they don't pay we should file a claim before the amount becomes so large it is feasible for them to build a separate plant.
- DVR Sewage Plant The hotel was brand new when budget was made and for it to increase a little is expectable.

Pool & Beach

- DVR Wages – We have been running fully staffed all the season. The cost of employee housing was underestimated as all are Ex-Pats.
- DV -New contracts & wages are coming for all staff. Our HR manager coming the middle of July.
- DM – Is there any chance of losing staff to other hotels while they don't have a contract? DVR No
- DVR – Swimming pool repairs. \$4000 accrued in March which will help pay for pool repair. The repair cost \$7500 just to try and find leak. Other costs have the rescue

boat motor, new sails & a rudder needs repair on the Hobby cats. The Molokio Canoes are arriving on the next container.

- Water expense has been higher due to having to top up the pool

Total Overview

- TW. – We have made \$20,000 better than budget
- SH – The topic of the Managements responsibility post hurricane damage was discussed. Communication has been given to the Insurance company but it is still unclear how to fully comply in the event of a major damage situation. It is critical however that damage done that could cause mold in the rooms must be mitigated as best possible right after the storm. We will need to rip out dry wall to let the room's air before being able to do repairs. All Insurance companies exclude damage caused by mold
- TW – What are the total expenses? DVR - What is in budget + 130K insurance. The expenses that are over washes out with other areas that were under.
- Doubled the profit that was projected.
- DV 100% better at the bottom line that what we projected to be.
- The maintenance department is doing a much better job in billing.
- TW - with the exception of insurance we will exceed our projection. We are \$20,000 above budgeted profit

10 min break taken at 10:20

Review of Strata Budget 2007. Balance Sheet – Cash Reserve.

- Patrick Van Hamme (PVH) – Still needs to move figures around between hotel and strata.
- SH – It is normal for the funds to be partially mingled in with the resorts account because of the complexity and overlap of various supplier payments. The Reserve Fund is to be segregated into a separate bank account and invested.
- TW - As of April 30th we approx have \$218,000
- Expenses \$18,000 per month.
- SH – Put cash held by Management Company for reserve and reflect it in the statement.
- Catherine Caldwell (CC) – Reserve cash would be shown as an asset and the corresponding reserve be shown in the equity section of the balance sheet. Patrick was instructed to take the reserve fund cash and put it in a term deposit.
- PVH will do and organize in June.
- CC – Requests the reserve & equity statement to be e-mailed to the board members each month with Owners statements.

Capital Expenditure works completed and the scheduling of remaining works.

Lighting

- DVR - \$160,000 for landscape lighting proposal. Areas already upgraded are out the front of building 5, the footpaths behind the buildings leading to the rooms the step out the front of P23. \$160,000 would include everything, but this would not all be a Strata expense and would be done over a period of time.
- Board to look at lights tonight and Diderik to show proposal.
- SH agrees on parking lot needing lighting. \$160,000 is far too much at this point and the funds will be needed for other priorities. SH would like to see the lights in action for a while to check how they cope with the environment - island power etc and landscapers. Also, the lighting upgrades will need to be done in smaller sections at a time.
- TW How much would come out of Strata? DVR still to get final proposal.
- DVR The lighting company are on site if anyone would like o speak to them
- No decisions on landscaping/ lighting will be made until the proposal is provided to the board.

- DVR suggested that this could spread over a couple of years.
- The only consensus at this time was to improve the parking lot lighting
- DVR Once he has break down of lighting cost for areas it will be presented to the Board

Hotel Upgrades/ Signage

- DVR – Upgrade of the turning circle.
- Upgrade of Concierge desk
- Upgrade of Reception desk. This is on hold until it goes through Regent approval
- Signage - \$45,000. This is on hold as things are moving around the resort.
- DM – be careful that there is not excessive signage
- Corner sign outside will be installed tomorrow morning.
- DM – suggests can't we leave what is there?
- DVR – Guests keep getting lost. They can never find the Spa. It was agreed however that excessive signage should be avoided in order to keep a clean looking site. DVR can submit a list of critical signs for consideration.
- Elevator maintenance

Elevator Assessment

- DVR - Replace mirrors in lift and proposal to stop the wood being damaged and scuffed. We have a proposal that is \$8000 per cab. We currently have maintenance doing constant touch ups with paint. The problem is not the trolleys; it is the luggage sticking out of the trolley.
- The board requested to keep the mirrors as they currently are. It was a unanimous agreement that they liked the mirrors and that they were originally very expensive.
- TW – agrees with stainless steel base rail.
- SH – Proposes to install a stainless bar around the base to stop it being banged
- CC – Proposes that we build it into existing wood
- TW – We need to get some real direction for our capital and to give Diderik direction on what it's to be spent on. The board is to make a decision.
- DVR Suggests he can get an interior decorator brought in. He has been told a reflective ceiling should be installed along with down lights.
- SH – Why can't they put in a drop in grill over the ceiling and have lighting across.
- Peter Kirby (PK) – DVR has verified that the quotes he is getting are stable within the industry.
- One proposal that lifts would go to laminate & stainless steel, keep antique mirrors. Total costs would be \$57500
- PK – Suggests that even if it means spending more to get something we like, we should look at that option.
- CC – Suggests a mid way rail
- DVR - Canvas material made to wrap around luggage to protect lifts
- TW – Need to make a decision on lifts so Diderik can move ahead.
- The board reconvened at 2:30pm to inspect an elevator cab and it was agreed that they would like to keep the original ambience of the elevator cab with the existing mirrors and wood work. SH proposed to install stainless steel frames elevated a little from the wood work frame to help try and protect the wood while also being able to keep the current look and feel of the elevator. Diderik is to get a quote for the stainless steel

Kiosks

- DVR – Kiosks are still in design phase. No quote on them yet. Approx \$25,000 – \$30,000.
- DV to speak to Paul Scott to get project moving

Direct Owner Issues

Electronic Door locks

- DVR – New door auto closer & electronic locks

- Only the doors that open directly to the elevator landing will have them installed, except for penthouse which will have an electronic key in the elevator. There is a 30/70 split between the hotel & the owner respectively
- The cost to a Penthouse owner will be \$656, \$339 to the owner for a lock off door & \$445 to the owner for a double door.
- Door closers have been ordered. They have a time delay & are bronze in color.
- DVR – These will be installed at the end of Aug & Sep to minimize disturbing our guests with noise. We will put off any work that can until the slow season, so as not to affect revenue.

Miscellaneous Owner Items

- Nespresso Coffee Machines will only be in the suites, not the lock-outs and the old coffee makers will remain
- Full length mirrors have been ordered. It has cost \$16,000 instead of \$45,000 approx \$95 – \$120 per room
- Possible floor lamp replacement.
- Trash cans are ordered and are arriving
- DM –We have the wrong filter in current coffee maker – DVR to look into
- Amenity tray is ordered and coming.
- DVR- Pool furniture & equipment. We have ordered some more teak chairs \$160 per piece from Indonesia, umbrellas, new cushions @ \$69 a piece. Total Expense is approx \$15,000 - \$16,000

Capital Expenditure Funds

- TW - 2007 Capital Expenditures should not exceed \$70K. We have spent approximately \$10,000 have \$60,000 remaining. The \$218,000 should go down approx \$70K
- TW - The Board is to provide DVR with a budget and be specific of where they want it spent so DVR can put things into action. DM – The board should be involved in major decisions. DVR will provide a list of items that need to be addressed and the board will then approve them in order of what they feel is a priority.

Capital Reserve

- TW - How can we raise some funds and how can we raise our reserve?
- DVR - 3% of total revenue for first 5 yrs then 5% is industry standard
- CC – We need to look at every year, budget and plan how to build
- SH – For just the strata 1.5 – 2% would be suitable
- PK – Need to derive a strata fund formula. Suggest to Owners that they work on their own capital reserve.
- DV - There will come a time where we will need to replace furniture etc
- PK – What our recommended number.
- The Board approved the 10% Reserve for Major Expenditure contribution, and DVR confirmed that he thought this would be sufficient and in line with industry standard. Expenses will be pool, leaking of buildings, and floor area around the pool. These will all be capital expenditures.
- Catherine Caldwell presented some calculations that she had prepared to establish a long-term reserve fund. Two classes of reserves will be established. There will be a Reserve for Major Expenditures, which she defined as those typically of a mechanical or structural nature that will be incurred in future years. The second class of reserve is the Reserve for Capital Expenditures, the level of which will be established on an annual basis. This reserve would be used to fund capital items purchased or on-going significant repairs such as elevators, pool etc.

Catherine's model used the current budgeted expenditures as her basis for the calculation. Her results were compared to hotel industry standard, adjusted for Strata versus Owner type of expenditures. The key assumptions made in formulating the model were:

1. The current reserve level of approximately \$240,000 would fund the balance of current year capital expenditures and any major expenditures within the next 5 years.
2. The reserve funds would be segregated and invested in term deposits, or an equivalent investment instrument. An investment rate of 4.5% was assumed.
3. The Reserve for Major Expenditures would increase by 3% per annum.
4. The Reserve for Capital Expenditures would be reviewed and assessed annually. For the upcoming year it was set at 2.5% of budgeted expenditures. This equated to approximately \$74,000.

Three different scenarios were presented with extrapolated calculations. It was agreed that the scenario representing a unit entitlement assessment of \$1.63 per unit entitlement in 2007, invested at 4.5% and factored for inflation at 3% per annum would achieve the objective of establishing a well funded reserve, equivalent to industry standards. This assessment will fund both of the reserve for Major Expenditures and Capital Expenditures.

The current unit entitlement assessment is \$1.00 per unit entitlement. Based on this model, owners will be assessed for the reserve fund contributions over the next five years, based on the 3% inflation factor for the Reserve for Major Expenditures as follows:

| YEAR | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Reserve for Major Expenditures | \$1.29 | \$1.33 | \$1.37 | \$1.41 | \$1.45 |
| Reserve for Capital Expenditures | \$.34 | \$.34 | \$.34 | \$.34 | \$.34 |
| TOTAL | \$1.68 | \$1.72 | \$1.77 | \$1.81 | \$1.85 |

- TW – going to say we are going to budget 75K & motion for new calculation for 10% contribution for Major Expend reserve. – All approved. Starting July 1st
- The 2007 assessment rate will take effect on July 1, 2007.

TW moved to conclude the meeting and those present unanimously approved.
The Annual Board Meeting was adjourned at 11:50am