

Sandpiper Cay Condominium Owners Association

2010 Budget Package

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November 12, 2009

Sandpiper Cay Condominium Owners Association
P.O. Box 449
Kitty Hawk, NC 27949-0449

Board of Directors

<u>Name</u>	<u>Officer Title</u>	<u>Board Term Expires</u>
Steve Kinnier	President	2011
Linda Craig	Vice President	2012
Liz Puma	Treasurer	2011
Pat Ambrose	Secretary	2010
Tom Watkins		2012

Association Manager

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SANDPIPER CAY CONDOMINIUM OWNERS ASSOCIATION
P.O. Box 449, Kitty Hawk, North Carolina 27949-0449

November 12, 2009

Dear Sandpiper Cay Owner:

On behalf of your Association's Board of Directors, I am writing to you with an overview of the Association's 2010 budget, which the Board adopted during an Executive Session meeting held on Thursday, October 29, 2009.

Monthly Assessments for 2010

The 2010 budgeted monthly assessment is \$270. This is an increase of \$25 per month over the \$245 monthly assessment rate that was in place for both 2009 and 2008.

Budget Priorities for 2010

In considering its various options for the 2010 budget, the Association's Board of Directors adopted a set of priorities, as follows:

First, to set aside at least 10% of the 2010 budget in a separate reserve account that would not be spent during 2010 except in the case on an emergency;

Second, to maintain the current level of services to owners and residents, including grounds maintenance, pool monitor services, and necessary repairs and maintenance;

Third, to continue to repair, and to completely replace if necessary, the roofs in the community that are suffering from structural failures;

Fourth, to obtain an audit by a CPA firm of the 2009 books and records of the Association;

Fifth, to provide sufficient funding for legal services to continue to pursue legal action against those unit owners that are severely delinquent in their financial obligations to the community; and

Sixth, to keep the 2010 increase as small as possible.

As will be discussed further below, the Board of Directors believes that the budget described in this package meets all six of these priorities.

Setting Aside 10% of 2010 Assessments for Reserves

The Association had no reserves at the beginning of 2008, and no reserves were added in either 2008 or 2009 because of the need to replace roofs. In the past few years we know of quite a number of real estate transactions within Sandpiper Cay that have either become very difficult to close or have been abandoned entirely due to the lack of reserves at Sandpiper Cay. Both the Federal Housing Administration and Veterans Administration have very strict guidelines in place regarding loans on condo units where the Association is not setting aside at least 10% of annual assessments for reserve purposes, and a number of conventional lenders are following this guideline as well.

The Association's Bylaws place a very clear fiduciary responsibility on the Board of Directors to build and maintain adequate reserves, and your Board takes this fiduciary duty very seriously. As was provided for in the 2009 budget, we obtained a third-party reserve study to help us assess how much we needed in reserves. The consultant inspected common areas in the community to determine the condition of the materials used in the original construction and/or subsequent repairs. The study provided an estimate of the useful life of each component and the current replacement cost for each item. The report recommended a funding plan for future annual contributions to the reserve fund. The reserve study report is posted on the Association's web site.

If we are able to collect all of the 2010 assessments, then we should have a separate reserve account of at least \$90,000 by the end of 2010. If future Boards continue to follow this budget discipline, then in ten or fifteen years the Association will be in a position to replace building components without having to resort to special assessments.

Maintaining the Current Level of Services

Some owners have suggested to the Board that we reduce services in recognition of the difficult economy. Some of the suggestions included (a) reducing or eliminating the pool monitor service, (b) cutting the lawns less frequently and (c) allowing some of the grass areas to revert to sand and thereby reduce irrigation system maintenance costs. After considering these and several other options, the Board decided it was in everyone's best interests to maintain the current level of services. We have been able to negotiate 2010 contracts with our various vendors that keep projected cost increases below 2%. The Board decided that any reduction in services would reduce the quality of living in the community and could also have an adverse effect on the appearance of the community and therefore hurt property values.

Repair and Replacement of Roofs

The lack of a reserve funds has greatly complicated the process of repairing and replacing roofs in the community. While the state of deterioration on each of these of the roofs is different, it is clear that the integrity of each roof is failing well in advance of its expected useful life.

In 2008 the roof on the 300 building was replaced at a cost of \$31,197. During 2009 the Association replaced the roof on the 600 building and will soon replace the roof on the 1000 building. The two roof replacements scheduled to be completed in 2009 cost \$61,921. The new roofs are being installed by licensed, qualified contractors offering strong and enforceable warranties.

The Board is considering the replacements or repairs of several other roofs during the coming months. This includes some funds budgeted in 2009 but not yet paid plus new funds included in the 2010 budget. Due to the Association's funding limitations, some roofs will be repaired/patched instead of being replaced. The Board is closely reviewing the recommendations of its consultants as to the "triage" order in which each of the roofs with failure issues are addressed. But it must be clearly understood that the Association will only be able to deal with five or six additional roofs by the end of 2010.

CPA Audit

The Bylaws of the Association require an independent audit of the books and records at least once every five years, and the Board may elect to obtain a CPA audit annually. We did obtain an audit of the books for 2008, and the results were very well received. The 2008 Audited Financial Statements of the Association are posted on your web site. As the Association's annual budget approaches \$1 million, the Board of Directors unanimously voted to obtain annual independent audits.

As you may already know, the Association employed two different CPA firms in 2008 and 2009. In January 2008 the Board of Directors engaged the accounting firm of Johnson, Burgess, Mizelle and Straub to perform "forensic accounting" services. This firm essentially worked to reconstruct the Association's accounting records for the years 2006 and 2007. The Association paid Johnson, Burgess, Mizelle and Straub fees of \$1,728 in 2009 (in addition to the \$3,532 in fees paid in 2008). The entire \$5,260 paid to this firm for its forensic accounting services in 2008-2009 is a direct consequence of the financial and accounting irregularities involving the previous management of the Association. Because of the nature of these forensic accounting services, this accounting firm was not "independent" of the Association and therefore was not eligible to perform the 2008 audit.

The accounting firm of Burgess, Lowman and Lay, PA was then engaged to perform the 2008 independent audit. The final fee for that audit was \$7,625. Of this amount, approximately 35% (\$2,625.00) was related to audit complications from the financial and accounting irregularities in 2007 and prior years.

The Association has engaged Burgess, Lowman and Lay, PA to audit the 2009 books for a fee of \$5,600. This is a 62% reduction from the \$9,353 spent on outside CPAs in 2009.

Delinquent Accounts

The Association continues to be plagued by delinquent assessment accounts. As of October 31, 2008, the owners of eight units were delinquent by more than three months. The total due on the accounts of these eight unit owners was \$55,295, as follows:

<u>Unit Number (Masked)</u>	<u>Amount Due</u>	<u>Number of Months Delinquent</u>
Unit A	\$ 13,809	58
Unit B	8,927	37
Unit C	8,139	33
Unit D	7,565	31
Unit E	6,490	26
Unit F	6,125	25
Unit G	2,450	10
Unit H	1,790	7
Total	\$ 55,295	

Of the eight units listed above, the first six were delinquent at the time the tenure of the previous management of the Association ended in December 2007 (which was 23 months ago).

We have placed liens on each of these properties, and have contacted each of the owners by certified mail regarding their delinquent accounts. In some cases, the owner has either refused to accept delivery of the certified letter or has not replied to us regarding the delinquent accounts. The sum of the delinquent amounts owed by these eight units almost equals the cost to replace the roofs on two buildings.

Also as of October 31, 2009, there were an additional thirteen unit owners that were delinquent one or two months, for a total of \$5,518.

All of the owners at Sandpiper Cay owe a debt of gratitude to our Association Managers at Village Realty and Management Services, Inc. for their diligent pursuit of delinquent accounts. While the \$55,295 of delinquent assessment balances as of October 31, 2009 is certainly frustrating, it should be remembered that the delinquency list totaled \$135,000 when Village Realty took over as our Association Manager in February 2008.

If these eight severely delinquent parties do not make their contractual payments all of the other Sandpiper Cay owners will end up paying the price, either with increased future monthly assessments or leaky roofs. We will continue to work with our legal counsel as we seek to collect the delinquent amounts. For this reason, the Board has increased its budget allocation for legal fees in 2010.

The 2010 Budget

The specific of the 2010 budget are presented in the following pages. We encourage all Sandpiper Cay owners to review the budget and contact us if you have any questions. Your Board of Directors believes this budget meets the six objectives set forth at the start of this letter.

We encourage Sandpiper Cay owners to attend our open Board meetings or to submit questions or comments. The minutes of our meetings are posted on our web site.

We also look forward to seeing you at the 2010 Annual Meeting. If you have an interest in being nominated for a seat on the Association's Board of Directors, the 2010 "Nomination Petition" form and instructions will be posted on our web site on Wednesday, November 18, 2009. The form and instructions will also be available at the Association's office during posted business hours.

Sincerely,



Stephen R. Kinnier

President

Sandpiper Cay Condominium Owners Association

**Sandpiper Cay
2010 Budgeted Income and Expenses**

Account Name	Projected Final Balances For 2009		Change		Budgeted Balances For 2010	
	Total Dollars	Per Unit Per Month	Total Dollars	Percent Dollars	Total Dollars	Per Unit Per Month
Income						
Owner Dues	823,200	245.00	84,000	10.2%	907,200	270.00
Interest Income	2,616	0.78	384	14.7%	3,000	0.89
Owner Dues Reserve for Loss	0	0.00	(9,072)	0.0%	(9,072)	(2.70)
Other Income	5,211	1.55	(411)	-7.9%	4,800	1.43
Total Income	831,027	247.33	74,901	9.0%	905,928	269.62
Expenses						
Monthly Maintenance Fee	174,000	51.79	3,480	2.0%	177,480	52.82
Utilities	3,133	0.93	67	2.1%	3,200	0.95
General Maintenance	25,202	7.50	(602)	-2.4%	24,600	7.32
Clubhouse Maintenance	3,080	0.92	(880)	-28.6%	2,200	0.65
Electricity	15,733	4.68	267	1.7%	16,000	4.76
Telephone	3,568	1.06	32	0.9%	3,600	1.07
Legal	12,503	3.72	4,247	34.0%	16,750	4.99
Insurance	295,051	87.81	11,042	3.7%	306,093	91.10
Accounting	13,227	3.94	(7,627)	-57.7%	5,600	1.67
Management Fees	50,400	15.00	1,008	2.0%	51,408	15.30
Office Expense	3,405	1.01	(5)	-0.2%	3,400	1.01
Postage	1,780	0.53	120	6.7%	1,900	0.57
Taxes	863	0.26	97	11.2%	960	0.29
Grounds Maintenance	44,511	13.25	689	1.5%	45,200	13.45
Irrigation	13,524	4.02	276	2.0%	13,800	4.11
Irrigation Supplies	4,034	1.20	166	4.1%	4,200	1.25
Pool Maintenance	189	0.06	61	32.5%	250	0.07
Pool Monitors	11,155	3.32	(155)	-1.4%	11,000	3.27
Pest Control	11,040	3.29	(40)	-0.4%	11,000	3.27
Pool Supplies and Chemicals	2,494	0.74	(94)	-3.8%	2,400	0.71
Maintenance Supplies	19,798	5.89	202	1.0%	20,000	5.95
Depreciation	2,682	0.80	(82)	-3.1%	2,600	0.77
Miscellaneous	5,208	1.55	(1,641)	-31.5%	3,567	1.06
Subtotal operating expenses	716,579	213.27	10,629	1.5%	727,208	216.43
Replacement/Repair of Roofs	114,448	34.06	(26,448)	-23.1%	88,000	26.19
LockBox Reserves (Cannot Spend)	0	0.00	90,720	0.0%	90,720	27.00
Total Expenses and Reserves	831,027	247.33	74,901	9.0%	905,928	269.62
Net Profit (Loss)	(0)	(0.00)	0	0.0%	0	0.00

Sandpiper Cay Condominium Owners Association

Description of 2010 Budget Line-Items

November 12, 2009

Income

(Note – All income items are treated as being earned pro-rata throughout the year).

Owner Dues – The 2010 budgeted monthly assessment is \$270. This is an increase of \$25 per month over the \$245 monthly assessments in both 2009 and 2008.

The entire \$25 monthly increase in assessments for 2010 has been earmarked exclusively to build the Association's reserves for future years.

Owner Dues Reserve For Losses – The 2010 budget assumes that up to one percent of annual owner assessments (dues) may ultimately be determined to be uncollectible. While the Association intends to aggressively pursue all of its options to collect delinquent dues, the Board realizes that the consequences of the weak economy may limit some collection efforts. This budget line item has been established at the recommendation of our accountants.

Interest Income – The Association earns interest income on accumulated cash reserves in its operating fund and its new reserve fund.

ALL interest income earned on the reserve funds in 2010 will be earmarked exclusively for the Association's reserve account.

Other Income – This category includes collected late fees, rental fees for the clubhouse, and other miscellaneous income.

Expenses

(Note – Unless otherwise noted, all expense items are treated as being incurred pro-rata throughout the year).

Accounting – The 2010 budget for the independent CPA audit is \$5,600. This is a 62% reduction from the \$9,353 spent on outside accountants in 2009 (approximately \$3,750 of the 2009 expense was related to the financial and accounting irregularities that occurred in 2007 and prior years).

As the Association's annual budget approaches \$1 million, the Board of Directors strongly believes that the Association should obtain annual independent audits. The cost to Sandpiper Cay owners for the audit of the 2009 books will be \$1.67 per unit per month.

It should also be noted that the Association also paid the architectural firm DLM Architects a fee of \$3,874 in 2009, for the reserve study. There will be no reserve study expense in 2010.

Insurance – As in previous years, insurance is the single-largest budget line item for Sandpiper Cay, absorbing more than one-third of all owner dues collected. Premium rates for comprehensive and wind coverage increased dramatically in recent years. The total budgeted increase in insurance premiums for 2010 is \$11,042 (3.7%). On a per-unit, per-month basis, the insurance premiums will increase from \$87.81 in 2009 to \$91.10 in 2010.

Legal – There are three principal elements of the Association’s legal fees paid to the Association’s legal counsel, the firm of Hornthal, Riley, Ellis & Mayland. First, legal counsel provides regular guidance to the Board of Directors on a wide variety of matters, including reviewing certain documents and correspondence, violations of Association rules, and other corporate matters. Second, legal counsel assists the Association’s management in dealing with owners who are delinquent on their assessment obligations, including placing enforceable liens on the units of delinquent accounts. And third, the Association’s lawyers have assisted the Board in its investigation into the financial and accounting irregularities during the tenure of the previous Board of Directors, and the related legal actions the Association is taking against its previous management.

The total cost for all legal services is budgeted to increase by 34.0% from \$12,500 (or \$3.94 per unit per month) in 2009 to \$16,750 (or \$4.99 per unit per month) in 2010.

Association Management Fees – Village Realty and Management Services, Inc. is the Association’s manager. The monthly contract fee for this service has been \$4,200 in 2008 and 2009. The contract fee has increased by 2% to \$4,284 per month in 2010.

This fee covers all accounting, dues collection, communications, problem resolution, Board liaison, and other routine management services. This fee does not include maintenance services, which is addressed below.

Office Expense – This includes all office supplies associated with day-to-day management of the Association, including paper products, copies, etc.

Income Taxes – The Association is required to pay federal and North Carolina income taxes on its interest income.

Utilities –The total utilities budget for 2010 is about the same as the projected actual cost for 2009.

Telephone – Telephone charges for the Association include the land line at the office in the clubhouse. The total telephone budget for 2010 is about the same as the projected actual cost for 2009.

Association Maintenance Fees - The monthly contract fee with Village Realty for this service has been \$14,500 during 2008 and 2009, and the contract rate has increased by 2% to \$14,790 per month for 2010. The maintenance fee covers all costs by Village Realty personnel to maintain the community, and also covers certain costs paid by Village Realty to subcontractors involved in maintenance projects. This monthly fee does not cover costs for specifically excluded services such as pest and termite control, septic tank cleaning, lawn service, and sprinkler system service.

For example, during 2009 Village Realty started to replace the wooden stairways within in Sandpiper Cay. While the Association was required to pay for all of the building supplies for this project, the personnel costs for this work were all paid by Village Realty, regardless of whether the work was being done by Village Realty personnel or subcontractors.

General Maintenance – This budget line item includes the cost of materials used to maintain the community.

The total general maintenance budget for 2010 is 2.4% lower than the projected actual cost for 2009. The per-unit monthly cost for general maintenance is budgeted to increase from \$7.50 in 2009 to \$7.32 in 2010.

Pest and Termite Control – As noted earlier, pest and termite control is outsourced to a third-party vendor, and the total budget for 2010 is about the same as the projected actual cost for 2009.

Supplies – This budget line item includes miscellaneous materials and other supplies to maintain the community. The 2010 budget for this line item is 1% higher than the projected final 2009 expenses.

Grounds Maintenance - As noted earlier, lawn service is outsourced to a third-party vendor, and the total budget for 2010 is expected to be 1.5% higher than the projected actual cost for 2009.

Sprinkler Service - As noted earlier, sprinkler system service is outsourced to a third party vendor, and the total budget for 2010 is expected to be about the same as the projected actual cost for 2009.

Other Budget Line Items - The 2010 budget line items for other expenses (including sprinkler system supplies, pool and clubhouse maintenance, pool monitors, pool supplies and chemicals) are all expected to approximately the same as the respective projected costs in 2009. Many of these other budget items are budgeted to be higher during the summer season.

Roof Replacements and Repairs

During 2009 the Association replaced the roof on the 600 building and will soon replace the roof on the 1000 building. The two roof replacements cost \$61,921. The Board is considering the replacements or repairs of several other roofs in the coming months.

As of the date of this report, the Association has approximately \$50,000 of unspent funds budgeted for 2009 roof replacements or repairs. The Board has elected to carry over these unspent roof replacement/repair funds to 2010. Each decision to either completely replace a roof or just repair that roof will be made on a building-by-building basis during 2010. The 2010 budget allocates \$88,000 of additional funds to replace or repair roofs. The Board expects that the entire \$138,000 currently available for roof replacements or repairs will be expended by the end of 2010.

Reserves

The 2010 budget sets aside 10% of owner dues (\$27 per unit per month, which includes all of the \$25 increase) exclusively for the building of the Association's reserves. In addition, all interest income earned on these new reserve funds will be retained in the reserve account.

**Sandpiper Cay
2010 Budgeted Income and Expenses**

Account Number	Account Name	January 2010	February 2010	March 2010	April 2010	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010	Total Year-to-Date
Income														
3000	Owner Dues	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	75,600	907,200
3010	Interest Income	250	250	250	250	250	250	250	250	250	250	250	250	3,000
3050	Owner Dues Reserve for Loss	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(756)	(9,072)
3090	Other Income	400	400	400	400	400	400	400	400	400	400	400	400	4,800
	Total Income	75,494	75,494	75,494	75,494	75,494	75,494	75,494	75,494	75,494	75,494	75,494	75,494	905,928
Expenses														
4001	Monthly Maintenance Fee	14,790	14,790	14,790	14,790	14,790	14,790	14,790	14,790	14,790	14,790	14,790	14,790	177,480
4002	Utilities	267	267	267	267	267	267	267	267	267	267	267	267	3,200
4003	General Maintenance	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	24,600
4004	Clubhouse Maintenance	183	183	183	183	183	183	183	183	183	183	183	183	2,200
4000	Electricity	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	16,000
4006	Telephone	300	300	300	300	300	300	300	300	300	300	300	300	3,600
4104	Legal	1,396	1,396	1,396	1,396	1,396	1,396	1,396	1,396	1,396	1,396	1,396	1,396	16,750
4105	Insurance	25,508	25,508	25,508	25,508	25,508	25,508	25,508	25,508	25,508	25,508	25,508	25,508	306,093
4106	Accounting	0	0	0	0	0	0	0	0	0	0	0	0	5,600
4107	Management Fees	4,284	4,284	4,284	4,284	4,284	4,284	4,284	4,284	4,284	4,284	4,284	4,284	51,408
4109	Office Expense	283	283	283	283	283	283	283	283	283	283	283	283	3,400
4111	Postage	158	158	158	158	158	158	158	158	158	158	158	158	1,900
4113	Taxes	80	80	80	80	80	80	80	80	80	80	80	80	960
4200	Grounds Maintenance	3,767	3,767	3,767	3,767	3,767	3,767	3,767	3,767	3,767	3,767	3,767	3,767	45,200
4203	Irrigation	0	0	1,533	1,533	1,533	1,533	1,533	1,533	1,533	1,533	1,533	1,533	13,800
4204	Irrigation Supplies	0	0	467	467	467	467	467	467	467	467	467	467	4,200
4304	Pool Maintenance	0	0	0	0	50	50	50	50	50	50	50	50	250
4305	Pool Monitors	0	0	0	0	0	2,750	2,750	2,750	2,750	0	0	0	11,000
4318	Pest Control	917	917	917	917	917	917	917	917	917	917	917	917	11,000
4320	Pool Supplies and Chemicals	200	200	200	200	200	200	200	200	200	200	200	200	2,400
4323	Maintenance Supplies	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	20,000
4402	Depreciation	217	217	217	217	217	217	217	217	217	217	217	217	2,600
4600	Miscellaneous	297	297	297	297	297	297	297	297	297	297	297	297	3,567
4500	Replacement/Repair of Roofs	0	0	0	0	0	31,500	0	0	31,500	0	0	25,000	88,000
	LockBox Reserves (Cannot Spend)	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	90,720
	Total Expenses	65,257	65,257	72,857	67,257	67,307	101,557	70,057	70,057	101,557	67,257	67,257	90,257	905,928
	Net Profit (Loss)	10,238	10,238	2,638	8,238	8,188	(26,063)	5,438	5,438	(26,063)	8,238	8,238	(14,763)	0