

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

**2009 ANNUAL MEETING OF UNIT OWNERS
Saturday, March 21, 2009**

PRESIDENT'S REMARKS

Throughout last year the hot “buzz word” on the national political scene was “Change.”

For those of us in Kitty Hawk, North Carolina, we saw many changes at Sandpiper Cay in 2008. We had an entirely NEW Board of Directors in 2008. We hired a NEW Association management company, Village Realty. We engaged new NEW legal counsel. We started using a NEW insurance agency. And we hired a NEW CPA Firm. Actually, as strange as it may seem, we had to hire TWO new CPA firms. Please allow me to explain.

First, the CPA firm of Burgess, Lowman & Lay, PA, whose office is Kitty Hawk, just this week completed their audit of the Association's 2008 financial statements. We are in the process of proofreading their final audit report, and we now plan to mail one copy of that report to each Unit Owner soon. This is great news for Sandpiper Cay! This is the first full audit completed on the Association's books and records since 2000.

Next, the Association also retained the CPA firm of Johnson, Burgess, Mizelle & Straub, LLP, which by the way is also located in Kitty Hawk, to perform “forensic accounting” services. Forensic accounting is a field of accounting where the accountants are engaged not to “audit” financial records but to “reconstruct” financial records. Businesses hire forensic accountants when they have a real mess on their hands. By the end of 2007, that is what we had.

It is widely-known to the Sandpiper Cay Unit Owners that the financial books and records of the Association have been in a difficult state for quite some time now. By the end of 2007 the previous Association management company had finally been let go, and the Board in January 2008 hired the forensic accountants to attempt to reconstruct those records. This project has been underway now for fifteen months, and the work continues to this day. The good news I can report is that the forensic work has progressed to the point that we have been able to get a clean audit opinion on the books for 2008. The bad news is that the books and records for 2007 and 2006 are still so foul that they have been declared un-auditable by both accounting firms.

At this time I must extend a warm thank-you to those current and former Board members who worked so diligently during the first four months of last year to assist the forensic accountants in their monumental risk. Those persons are former Board member Jim Coughlin and current members Linda Craig, Pat Ambrose and Tom Watkins. The work by Jim, Linda, Tom and Pat was invaluable. So, for the service the four of you put forward before Liz Puma and I joined the board, I thank you.

I also want to thank the good folks of Village Realty, who were brought into Sandpiper Cay engagement in mid-February 2008 and inherited a total financial mess. The largest and most immediate problem was the total disarray of the dues receivable accounts. As of the beginning of 2008, the total amount of uncollected dues was nearly \$124,000. That is a totally incredible amount of uncollected dues for any one date. It was almost as if each and every one of the 280 Units were delinquent more than two months at that date. I am therefore very grateful to Emily Lewis, Courtney Fowler and Ansley Miller for working so diligently over the past year in collecting delinquent dues, placing liens on properties where dues were chronically late, and cleaning up the dues records. As of yesterday morning, there were only 18 units that were late 30 days or more, for a total amount due of \$56,697. Emily, Courtney and Ansley have been tenacious in pursuing the receivables list. Again, thank you very much.

I trust that each of you received the budget packages we mailed to you late last year. You may recall in my letter I used the phrase “financial and accounting irregularities” several times when referring to the accounting books from 2005, 2006 and 2007, the accounting nightmare that has kept the forensic accountants so busy over the past fifteen months. As I am sure you have already figured out, the accounting nightmare at Sandpiper Cay has now become part of the legal process. Our attorneys with Hornthal, Riley, Ellis and Maland are continuing their investigation into these matters. Along with the forensic accountants, the attorneys have been reviewing records and other information obtained from various sources.

Our attorneys provide periodic briefings for the Board. However, because of the ongoing legal investigation, our attorneys have placed severe restrictions on our ability to reveal any details at this time. Because of the nature of the investigation, and the fact that litigation may be brought, it is essential to protect the best interests of Sandpiper Cay by respecting the confidentiality of our attorneys’ investigation. Once their investigation is complete and the attorneys have shared the final results of that with the Board, we will provide the Unit Owners with the full story.

That having been said, our attorneys have cleared me to share with you today two examples of the “financial and accounting irregularities” from the years 2005, 2006 and 2007 that have been identified so far. This is obviously only a partial list of the matters being investigated, and by necessity I am going to have to be somewhat vague in my descriptions. But I do hope that the following two examples will give you a flavor of what has been determined to date:

First, it is apparent that the former management company was paid fees by check by the Association for work that was never performed. The mere fact that the management company was paid for an entire year of monthly Association bookkeeping services for 2007 and yet the books and records and the receivables records were in complete disarray by the end of 2007 is proof positive that the Association paid for services that were not received. Remember, the Association manager was in charge of the Association’s checkbook, so this manager basically paid itself with our money for work that was not done.

Second, it is also apparent that during the three year period of 2005, 2006 and 2007 the former management company was paid substantially more than was provided for in the Board-approved contract. While I am not permitted to share any additional details of this matter at this time, suffice it to say that our accountants and attorneys were baffled with the complete arrogance of a

management company that decided to pay itself with Association funds for 15 months of services during a 12-month period. This one fact alone represents a 24 percent over-charge. In other words, we were all cheated.

There is much more, but I cannot give you any more details at this time. The forensic accountants and attorneys have been dealing with the fact that some records that were, or should have been, maintained by the prior management company have not yet been found. Some required tax filing were apparently ignored, exposing the Association to fines.

Each and every Sandpiper Cay Unit Owner has the right to be very angry about this situation. Our Association has been damaged by the dishonest actions of the former management company. Our Association is a business whose sole purpose is to maintain the properties at Sandpiper Cay to help all of the Unit Owners be able to maximize the value of their investments. To advance our business aims, the Association hired a management company to collect the dues, pay the bills, and maintain the property. We paid good dollars for these services, and in return we expected professional management of the Association's business affairs. Instead, we got have been left with an almost indecipherable mess of financial and accounting irregularities.

We should all be offended by the poor management that was provided before 2008, and your anger is definitely well-placed. However, please allow me to suggest yet another place for your to direct your feelings of betrayal. I ask you to join me in my disappointment with the board of directors during those years. The Association's board failed to fulfill its sacred fiduciary obligations to supervise the management company, to make sure that all of the Association's dues records were maintain in an up-to-date fashion, to review all of the Association's expenditures for reasonableness, and to obtain periodic independent audits of the accounting records.

The Association's Bylaws require a full certified audit at least once every five years. As I noted earlier, before this year the last time the Associations' books were audited was in 2000. Why was their no audit in 2005? Or in 2006? Why did the board take the unprecedented step to ignore the Association's Bylaws? So far attorneys have been unable to find any justification or documentation by the board as to why they decided to follow such a dangerous course.

The board had an absolute obligation to scrutinize the Association's expenses. Why didn't the board of directors review the monthly balance sheets and income statements and demand accountability by the management company? We can now state with absolute certainty that had a CPA firm performed a full certified audit in either 2005 or 2006 we would have known about the management company's financial and accounting irregularities much, much earlier. During the years 2005, 2006 and 2007 the management company was not doing the job it was hired to do, was not doing the job it was being paid to do. Where was the board of directors, and why did they do nothing? As you can imagine, this is a question that for the past year has completely baffled your current team of directors, accountants and attorneys.

As I stated earlier, this is all still a pending legal matter, and we have placed its resolution in the hands of our legal team. None of us can know at this time what will transpire as we attempt to resolve these festering issues.

I know that serving on the Sandpiper Cay board is a volunteer position, and I suppose that the individuals who served on the board during the year in question are good people with good intentions. I have no idea what really went wrong on that board. Was it a matter of poor coordination, or poor communication, or poor leadership? But regardless of what went wrong with that board, what is very clear is that things went very wrong.

I think the best place for us now is to contrast the secret style of the OLD board with open style your NEW board. First, your board now holds meetings almost every month, and our meetings are open to all interested Unit Owners. We keep well-written minutes of those meetings, and these minutes are physically posted on the bulletin board at the clubhouse and on our "virtual" bulletin board on our web site, sandpiper cay.org. Also, you may remember that we included copies of the all of the board meeting minutes from June 2008 through November 2008 in the budget package that was sent to all Unit Owners late last year.

Next, each month you board reviews a detailed financial report prepared by Village Realty. This report includes the Association's current balance sheet and income statement, a list of all check paid year-to-date, and the delinquency list, as well as other financial reports as may be needed on a periodic basis. The board asks a lot of questions about the financials, and the folks at Village Realty are very helpful in providing complete responses. The Association's monthly balance sheets and income statements are also posted on sandpiper cay.org. In addition, a copy of the financial package reviewed by the board each month is available to all Sandpiper cay Unit Owners at any time, simply by contacting Village Realty.

By the way, the board has also agreed to obtain a full certified audit for 2009. This cost has been built into the 2009 budget. Your board believes it has regained most of the credibility that the OLD board wasted away, and we intend to maintain that credibility with complete financial openness and transparency.

A copy of the 2009 budget summary is included with your agenda today. As we described in great detail in our budget package mailed to you late last year, the Board decided to hold the 2009 monthly assessment at the 2008 level of \$245.00. The Board spent a significant amount of its time discussing the elements of the 2009 budget. An increase in the monthly assessment in 2009 could certainly have been justified. First, there was a sharp increase in the wind insurance premiums. Second, the Association has precious little in reserves, and we will need to replace the roofs of several of the buildings during 2009. Third, as the local economy struggles in these economic conditions it is possible that more condominium owners will become delinquent in their monthly assessment payments. And fourth, we expect the Association will have to incur legal fees in 2009 as we continue to try to resolve the accounting and financial irregularities from 2007 and previous years and to collect delinquent monthly assessments.

The 2009 budget includes the funding of a "Reserve Study" to assist the Board in setting its budget priorities for 2010 and later years. That study is already underway. It is a top-to-bottom study by independent experts of the condition of all of the Association's physical plant. Additional reserves may need to be provided for in budgets for 2010 and later years by

increasing the monthly assessments. The Reserve Study will help us to decide these important questions.

I hope that I have not left any of you with the impression that your NEW board has spent the entire past year focused on only accounting and legal matters. I am very pleased with the list of our accomplishments. Please allow me a minute or two to list our successes.

First, almost every one of the septic tanks in the community was cleaned out in 2008, which we hope will prevent unpleasant and expensive backups.

Second, we were finally able to repair the chronic leak in the pipes beneath the cement around the pool, which should save the Association money and lots of water during the 2009 summer season.

Third, we have begun to replace the roofs of several buildings, and part of our triage plan. These roof repairs are expensive undertakings, and we are going to have to space them out in order to be able to afford them.

Fourth, I am very pleased to announce that soon you will have the option to pay your monthly Association dues by automatic draft from your checking or savings account or by credit card. There will be no charges to the Association for this new feature. Our Association managers at Village Realty will be sending you more information on this convenient service.

Fifth, several committees have been working diligently during the past few months to review the rules and regulations of the Association. These committees will soon be ready to make recommendations to update the documents, to make them more practical and relevant in a changing legal environment. At our next board meeting in April we will finalize the pool rules for the coming season.

Sixth, we are very happy with our newsletter and are pleased with the positive feedback we have received. We have the folks at Village Realty to thank for the newsletter. In the future we plan to mail the newsletters not only to the Unit Owners but also to the tenants we know about, to give all of the residents of Sandpiper Cay a chance to fully participate in the community.

And seventh, we continue to make improvements to the community's physical plant. We have been replacing wooden staircases, dead shrubs and damaged septic drainage fields. This spring we will make sure that all of the community's sprinkler systems are working, including some that have been non-functional for quite some time.

We have made a lot of progress, but there are storm clouds on our horizon. In this difficult economy some of our fellow unit owners may encounter difficulties in keeping up with their financial obligations to the Association. If you happen to find yourself in a difficult financial position, please do not hesitate to contact Village Realty. We are very willing to work with anyone in financial crisis, but you will need to take the first step and come forward. The absolute worst thing you can do is ignore your delinquent dues payments and ignore our letters of inquiry.

At this time we have no way of knowing what your 2010 monthly dues will need to be. There are still quite a few unknown factors, not the least of which includes the recommendations in the forthcoming reserve study and the wind and property insurance premiums for the policy year that begins September first. We may also have to spend funds faster than anticipated to repair or replace failing roofs. Please be confident that your board will take all steps necessary to keep the monthly dues fair and affordable.

As I conclude my remarks, I want to repeat our open invitation to all owners to attend the Board's monthly meetings, at least once in a while. If you are unable to attend in person, we always welcome your questions, comments and concerns. You can send us your questions by mail or e-mail, or simply bring them to the Sandpiper Cay office during business hours (or drop them in the box after hours). Our promise is to fairly consider all such inquiries, and we will document your questions and our responses in the Board meeting minutes.

Thank you for your attention.