

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

**2011 ANNUAL MEETING OF UNIT OWNERS  
Saturday, March 12, 2011**

**PRESIDENT'S REMARKS**

We have had a good year here at Sandpiper Cay. The Board of Directors has taken on some new issues in the past year, and we have continued to deal with those big issues that will be here for a long time to come.

**Monthly Assessments for 2011**

As you all know by now, the 2011 monthly assessment was set at \$270, which was unchanged from 2010. There are several reasons for the decision to hold the monthly assessment rate flat. First, the cost of wind and property insurance did not increase as dramatically as in previous years. I will say more on the cost of insurance later.

A second reason for no increase in the monthly assessments in 2011 is the rate of failure of the roofs has not be accelerating, as we had been fearing, and so our recent practice of replacing two or three roofs each year is still doable.

A third reason for the no increase in assessments is that our major service vendors did not increase their rates for 2011. Village Realty, which manages the business affairs of our Association on a day-to-day basis, did not increase its monthly fees for 2011. Likewise, we have not projected increases in other services, such as pool maintenance and landscaping.

A final reason for no increase in assessments this year is a reduction in the number delinquent accounts. There are 280 units in Sandpiper Cay. At this time last year there were nineteen units that were behind on their assessment payments by more than one month. As of today, that number is eleven. When a unit owner becomes delinquent on assessments it places more pressure on the Board to ask the remaining unit owners to take up the slack. The Association has a very limited set of options for dealing with delinquent accounts. More on that later.

**Budget Priorities for 2011**

As I described in the Budget letter to all unit owners in December 2010, when this Board was considering its various options for the 2011 Budget, we adopted a set of five priorities, as follows:

First, our goal was continue to set aside at least 10% of assessments in a separate reserve account that will not be spent during 2011 except in the case of an emergency;

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

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

Fourth, the Association would obtain an audit by a CPA firm of the 2010 books and records of the Association;

And fifth, we would have a Budget that would provide sufficient funding for legal services to continue to pursue legal action against unit owners that are severely delinquent in their financial obligations to the community.

The 2011 Budget we adopted, and which is in your handout today, meets all five priorities without an increase in monthly assessments.

### **Sandpiper Cay COA is Building Reserves!**

As of today, there is \$106,185 in the Association's reserve bank account. We placed 10% of total assessments into the reserve bank account in 2010, and we are budgeted to place 10% of total assessments this year.

Building up cash reserves is quite an accomplishment for a condominium owners association that began 2010 with no reserves.

This Association has had no reserves, and therefore has had to replace only two to three roofs each year, one at a time, and on a pay-as-you-go basis. This is a very costly way to make major renovations. It would be much better to get five or six roofs replaced at one time and be able to negotiate a volume discount from a vendor.

Keeping strong reserves is going to be very important in the coming years. Reserves will be our backstop in the event there is a damaging storm. As will be described later, the insurance market is constantly changing, and the Association will need to be responsible for a substantially larger deductible in the event of a "Named Storm."

Today the Sandpiper Cay owners have re-elect Liz Puma and me to new three-year terms, and I want you to know that both of us are committed to continue to build reserves. We hope that future Boards will continue to follow this budget discipline, so that in ten to fifteen years the Association will be in a position to face incoming storms without fear of financial devastation, and to replace aging building components out of reserves instead of from the operating budget.

### **Replacements of Roofs and Other Repairs**

The project to replace failing roofs is on-going, with a total of eight buildings (300, 600, 1000, 1300, 2400, 2700, 3100 and 3400) getting new roofs since December 2008. The new roof for building 2400 was completed yesterday. The Budget provides for one more roof replacement this year.

The first seven roofs were replaced by Gallop Roofing, and the 2400 roof was replaced by B&M Roofing Contractors. This company has a similar product to what was used on the past roofs and offered the same 15 year labor and material warranty. B&M also installed a slight 1/8" pitch that will allow for proper drainage and prevent ponding water on the roof. The cost of the 2400 roof replacement was comparable to the estimate provided by Gallop Roofing. Over the next few months the Board will evaluate the work

performed by both vendors and will then select a vendor for the next roof, which will be replaced sometime in the fall.

There are 36 buildings in Sandpiper Cay, with six of the "Williamsburg" style roofs and 30 flat roof buildings, including the clubhouse. That means we have replaced 8 of the 30 flat-roofed residential buildings, just under one-third of the total. At the current rate of one or two per year, it will take another five years to get all of these flat-roofs replaced.

As was described in the Budget letter in December, the 2011 Budget nearly tripled the allocation for general maintenance and repairs compared to 2010, as we continue to identify new challenges with our aging buildings. Some repairs to the pool may also be necessary. We certainly hope that we will not need to spend this much on maintenance in 2011, but it is good business for the Board to set the funds aside in advance just in case. If it turns out that we do not need all these additional budgeted amounts for maintenance and repairs in 2011 then the Board will most likely apply any surplus in this budget line-item to the roof replacements project.

One example is the wooden stair cases. The Board's current gameplan is to have the Village Realty maintenance team of Wayne and Steve replace the wooden staircases as their schedules permit. When Wayne and Steve provide the labor to replace the wooden staircases the Association only pays for the materials, as the labor is built into the monthly fee paid to Village Realty. However, if there is a safety concern on a particular building, and Steve and Wayne cannot get to the project as quickly as needed, then the Association would have to hire a vendor to replace the stairs, in which case the Association would have to pay for the labor. The Board will continue to monitor this situation, and only intends to hire outside labor to replace wooden staircases when there are safety concerns. At this time there are six more buildings needing new staircases.

## **Insurance**

The single largest budget line item in the Budget is property and casualty insurance. Almost one-third of the 2011 Budget goes to insurance (\$87 per unit per month). For the current policy year that began on September 1, 2010, the Association is now subject to an out-of-pocket deductible of 5% of total damages per building when those damages are the result of a "Named Storm." In order to keep the previous deductible for "Named Storm" damages the Association would have had to pay over \$100,000 more per year for insurance. The Board of Directors decided that this very large deductible buy-down premium was unreasonable for Sandpiper Cay.

The options available for the Wind and Hail Insurance Renewal Policy were what we called Option A (with an annual premium of \$297,343 with a \$75,000 flat deductible for Non-Named Storms and 2% per building deductible for Named Storms), and Option B (with annual premium of \$234,117 with a \$75,000 flat deductible of Non-Named Storms and 5% per building deductible for Named Storms). The Board selected Option B with the lower premium, which was a major factor in keeping the 2011 Assessments at the 2011 level of \$270 per month. However, it also means that in the unlikely event that each of the 34 buildings is damaged by more than 5% in a Named Storm, the Association's deductible would be around \$2 million. What this means is that Sandpiper Cay is paying about the same insurance premium for much lower coverage. The necessity to self-insure a larger potential loss is a primary reason for building strong reserves.

The Board believes that there is an element of unfairness about how wind insurance premiums are set in North Carolina. History supports that the interior regions of the state are hit harder by wind storms and

have the most damage, but the coastal regions are left paying the higher premiums for wind insurance. There is a website: [www.nc-20.com](http://www.nc-20.com). This site is a partnership among the people, local governments, and businesses of the twenty Coastal Counties of North Carolina. These 20 counties are being singled out by the State for continued drastic increases in insurance costs. We encourage each owner to visit this website and get involved.

### **Delinquent Accounts**

As of yesterday afternoon, there were eleven owners who were more than one month delinquent in their financial obligations to the Association. The eleven owners owed a total of \$45,212, and the five owners with the highest balances owed approximately \$14,000, 11,000, \$5,000, \$4,000 and \$2,000, respectively. The Association has placed liens on these units, and it taking what legal actions it can, which are admittedly very little. About the only feasible way to collect these delinquent balances is to foreclose on the units, which we really cannot do because we do not have enough reserves to pay off the liens legally ahead of us on those units. We have made numerous settlement proposals which have gone unheeded. Obviously, the two largest balances have been severely delinquent since before any of the five of us were serving on the Board.

During the past year there were eight units that changed ownership due to foreclosures. The Association lost an additional \$50,000 of unpaid dues on these foreclosures. This loss is reflected in the audited operating results for 2010. Four of the borrowers owed \$18,000, \$12,000, \$8,000 and \$4,000, respectively, at the times of their foreclosures. Again, the three largest balances have been severely delinquent since before any of the five of us were serving on the Board. In fact, the former owner that owed the \$18,000 at the foreclosure date had not had a payment made in over six years. While we have the legal right to file a personal judgment against this owner, unfortunately, our best information is that none of this balance is recoverable. We are working with legal counsel on a case-by-case basis on the feasibility of filing personal judgments against the others. A few of these have been identified to us as "strategic foreclosures" by people who have other assets and these are the ones on which we may be able to get judgments. But we are realists and do not believe we will ever see recoveries on most of these.

### **Legal Complaint**

Now I will give you an update on our legal case. On September 16, 2009, the Association announced that it had filed a Complaint in Dare County Superior Court against G. Douglas Seay, Susan D. Seay and Sandpiper Management, Inc. With respect to Mr. Seay, a former director and the president of the Association, the Complaint asserted: breach of fiduciary duties; conversion of the Association's assets for personal use; and constructive fraud. As to Ms. Seay, a former property manager for the Association, the Complaint asserted: breach of contract; breach of fiduciary duties; improper, negligent, and unreasonable management of the Association's affairs; lack of prudent management and failure to disclose facts; conversion of the Association's assets for personal use; and constructive fraud. The assertions against Ms. Seay also applied to Sandpiper Management, Inc. The Complaint sought specified and unspecified financial damages. A complete copy of the Complaint was posted on the Association's web site, [sandpiper cay.org](http://sandpiper cay.org).

As I stated at the Annual Meeting last year, the course of this case during 2010 was expected to include the Discovery phase and the start of the Deposition phase. During Discovery, the parties to the case ask for documents and other information relevant to the case. The parties to the case will also file motions in court to compel the production of certain information and to block the release of certain other

information. The Discovery phase can go on for quite some time, and in fact all of 2010 was taken up with the Discovery phase.

The face-to-face Depositions of the two defendants were to have taken place in 2010, but the sessions were delayed until 2011. The first day of Depositions took place on Tuesday, February 15, 2011, with each defendant being questioned under oath for approximately four hours. Our legal counsel has told us that the Depositions of the two defendants are each about one-half complete, so another day of Depositions will be scheduled soon. A date has not yet been scheduled.

We will continue to provide updates on the case in the minutes to our Board meetings. The minutes are posted on the Association's web site, [www.sandpiper cay.org](http://www.sandpiper cay.org).

### **Other Matters**

There are a few other things that have taken place in the past year that I would like to review with you:

### **Dog Cleanup Stations**

The Association installed dog cleanup stations at several places on the property. We received a lot of positive feedback on the first group of stations, and additional stations were added at the request of residents. There has been a noticeable reduction in pet waste on the ground since the stations were added.

Please report to the office when you see a Sandpiper Cay resident who does not clean up after their pets. Both Kitty Hawk Town rules and Sandpiper Cay rules require prompt pet cleanup.

Also on the topic of dogs, the Town of Kitty Hawk is opening a dog park. We have provided a copy of the rules for the dog park on the table today.

### **Recycling Center**

The Board has approved the construction of a recycling enclosure on the property. The Association will need to provide the containers and the storage area, and the county will empty the bins twice a week. Village Realty is working with the town on the necessary permits. Look for more information about recycling in the newsletter. The Association sold an unused golf cart for \$1,000 last year, and that money has been earmarked for the recycling enclosure materials.

### **Pool Grill and Picnic Tables**

The Association installed a charcoal grill and picnic tables in the grass enclosure near the pool. New pool furniture was bought for the 2010 summer season. We encourage you to use the new equipment to increase your enjoyment of the pool.

### **Pool Repair**

Speaking of the pool, Village Realty has been working to repair a small leak in the main drain of pool. The pool will be ready to open on Saturday, May 21st, the weekend prior to Memorial Day.

### **Wells, Septic Tanks and Drainfields**

The lawn sprinkler systems at Sandpiper Cay are supplied by wells, and all waste water is processed by septic tanks and drain fields. From time to time septic tanks need to be drained and wells and drainfields will fail. The Association continues to spend budgeted funds to dig new wells, and to clean septic tanks as needed. All tanks that have not been pumped in more than three years will be pumped in 2011. Drainfields can fail without notice, and each replacement can cost several thousand dollars. As Sandpiper Cay ages, the diminishing number of places to dig new wells and to place new drainfields will continue to grow more critical. In one recent instance, the only place to put a new drainfield was where an existing well was located. The well had to be abandoned and a new one dug (at a cost of \$4,200) in order to install the new drainfield (at a cost of \$2,000.)

Also on the matter of wells, last year we installed injection systems in the 1100/1300 building well and the 400/600 building well to reduce the orange rust staining. The new systems was somewhat successful, and the system may be installed in other parts of the property. The affected sidewalks will also be power washed more frequently.

### **Playground Equipment**

The Board has considered a suggestion to build playground equipment both inside the pool enclosure and outside as well. Several designs have considered, but no decision has been made. For insurance purposes, any swing set purchased by the Association will need to be installed by a company that specializes in playground equipment. There has been discussion on whether the Association's equipment should have a climbing wall component.

### **Shakes**

One of the ongoing maintenance issues at Sandpiper Cay is replacement of shakes. Wayne and Steve replace the shakes when they can, but the need to replace shakes is an ongoing and worsening problem. The repairs are time-consuming, and there a lot of shakes to maintain. The long-term solution is to replace the wooden shakes with synthetic shakes, but that will be a costly project that will have to wait until all of the remaining roofs have been replaced.

### **Dryer Vents**

The Board has been alerted on several occasions this year about the necessity of residents to clean their dryer vents. Please contact Ansley at the office if you have any questions about how to properly clean your vents without damaging them.

### **Chimney Repairs**

Some on the chimneys in Sandpiper Cay required repairs in the past year. The owners are problems having with a substance falling from or into their chimneys. The substance is efflorescence and is caused by moisture getting into the chimney. Moisture was getting in due to cracking in the crown of the chimney. This repair work is not done by the Village Realty maintenance crew. A licensed brick mason must be used.

### **Routine Maintenance**

Our maintenance staff does a lot of work each year. At each Board meeting, Village Realty reports all work done since the last meeting. Here is a listing of what has been reported to the board since last year's Annual Meeting:

Daily trash pickup		Replace patio door glass	18
Daily pool maintenance		Salt walkways and sidewalks	2
Monthly light check on all buildings		Repair roofs	26
Monthly water meter check on all units		Repairs to fence	15
Repairs to steps	7	Repair/replace screens	30
Repairs to bricks	6	Replace water line	14
Repairs to siding	10	Replace shakes	36
Replace steps	6	Remove garbage disposal	6
Repair or adjust exterior doors	40	Repair or adjust gutters	8
Replace glass windows	37	Power wash sidewalk	2
Repairs to windows	25	Parking area maintenance	15
Repairs to gates	59	Build new pump house	3
Repairs to interiors due to leaks	57	Power wash pool area	1
Repairs or replacements of exterior lights	26	Repair to outside faucet	4

### **Bylaws Committee**

A committee made up of some members of the Board and interested owners are in the process of reviewing the Association's Bylaws. The committee will report later this year on recommended changes to the Bylaws, a document that was last updated in September 1999.

### **Conclusion**

As I conclude, I repeat our open invitation to all owners to attend the Board's 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 inquiries, and we will document your questions and our responses in the Board meeting minutes, which are posted on our web site.

Thank you for your attention.