Letter to Harborside Owners – Aug 2005 Annual Owners Meeting

29 July 2005

Dear Haborside Owners:

The purpose of this letter is to provide you information about the financial status of the Harborside Condominium Trust, specifically the 2005 budget projections and the proposed budget for 2006, based on our financial statements of 26 June 2005. We also provide a status report on the Capital Reserve Projects and some additional background information. For reference, we invite your attention to the 17 February 2005 Trustees letter to Harborside owners, which summarized our financial performance for 2004 (a copy of that letter is available at the Owners Meeting).

First the 2005 Budget Status and Year-end Projection –

Based on revenue and expenses as of 26 June 05, we are projecting a balanced budget for the year.

Our assessment of the <u>Operating Account</u> is as follows:

1. The 1 Jan 05 starting Operating Account balance was $1363.26.
2. On the Revenue side, we are seeing a slight shortfall in income from the laundry room operation, which is being offset by the collection of late fees ($1135, as of 26 June). For the year-end, we project somewhat higher revenues ($1500) than we budgeted.
3. Operating Account expenses show some projected year-end variances:
    a. $400 overrun in Landscaping (vs. $2600 budgeted).
    b. $1000 overrun in Extermination fees (vs. $500 budgeted), mostly due to carpenter ants in the D Building.
    c. $5500 overrun in Snow Removal (vs. $5000 budgeted), due to the extremely snowy winter.
    d. $500 underrun in Natural Gas expenses (vs. $1000 budgeted).
    e. All other expenses lines are well within budget.
    f. The total projected operating overrun of $6400 is offset somewhat by the projected increase in revenue of $1500 and a repayment from the Reserve Account (a one time payment made to Osgood Painting from the Operating Account).
4. Therefore, we are currently projecting a $2550 (2.6%) year-end overrun in the Operating Account for 2005, which we should be able to cover as we close out the year.

Our assessment of the <u>Reserve Account</u> is as follows:

1. The 1 Jan 05 starting Reserve Account balance was $64,400.84, resulting from Special Assessment monies for the Seawall and Painting projects which were collected in 2004.
2. As of the 26 June statement, the Reserve Account balance stood at $1337.75 (considering payments from Special Assessment monies to North Shore Marine for the Seawall repair project and to Osgood Painting for the Carpentry/Painting project). To summarize the financials of those two Capital Reserve Projects:

   a. The Seawall project was completed in Apr 05 at a total cost of $51,230 for an underrun of $8770 vs. the Special Assessment of $60,000.
   b. The Carpentry/Painting Project is almost complete (pending some "punch list" items) for a total cost of $104,989.18 with an overrun of $6341.18 vs. the Special Assessment of $98,648. The original estimated cost of this project was $75,400, but as we indicated in a subsequent Special Assessment request, the amount of carpentry work to replace rotted wood exceeded our estimates.
   c. Note that between the underrun on the Seawall and overrun on the Painting, we ended up with a $2428.82 net plus.
3. As $1250 per month funds the Reserve Account from the Operating Account, we'll have another $7500 deposited to the Reserve Account by year-end, totaling $8837. We have also been credited $1350 by Osgood Painting for work not performed ("breathing vents" for the sideboards of the C Building were in the initial estimate), leaving $10,187 as the projected Reserve.
4. While we still expect some "late" Special Assessment fees to be collected, we still have one last carpentry/painting project (in the vicinity of the A-C Buildings and trash room area), which we expect to cost between $6000 and $8000. This project will be completed this fall, provided sufficient Reserve funds are available. That decision has been delayed until early fall.
5. We are also anticipating that some expenses liable to the Harborside Trust will result once the Arrigo's Unit undergoes a restoration project primarily covered by insurance. These expenses would occur if interior structural issues are discovered during the restoration. Such structural and common area repairs are the responsibility of the Trust. The final terms of the restoration proposal have not been finalized. It is difficult at this time to project what these costs may be, but we are planning to maintain contingency reserve funds if the need occurs this year.
6. So, the bottom line for the Reserve Account is that we have a projected balance of $10,187, against which we have contingency plans for the A-C Building/trash area project and/or the Trust-related expenses from the Arrigo's Unit restoration. Once we know the timing of the Arrigo's restoration, we'll decide whether to proceed this year with the A-C Building/trash area project or defer it until next year. As we intend to balance the 05 budget, we'll monitor the situation as we go into the fall, and decide how best to use the remaining Reserve Account monies.

Second the proposed 2006 Budget – (See Attached)
We are proposing a 2006 Budget of $124,450, an 11% increase over the 2005 Budget of $112,350, which will result in a corresponding increase in Common Element Fees (Condo Fees). The rationale for this increase is as follows:

1. Operating Account:
   a. $3000 increase from $5000 in 2005 to $8000 in 2006 for Snow Removal – this remains a difficult expense to estimate, but we are projecting over $9000 for this year.
   b. $400 increase from $2600 in 2005 to $3000 in 2006 for Landscaping.
   c. $2700 increase from $2700 in 2005 to $5400 in 2006 for Dock Fee. This Dock Fee is the contribution from the Common Element Fees made in

December of each year to help fund the Dock Account. This contribution of $100 per unit per year is made in recognition that the docks are available for use by all owners and residents of Harborside and, thus, represent "value" to all owners. This year, the Trustees, in coordination with the Harborside Dock Committee, have decided to raise this annual contribution to $200 per unit as a means of better funding a new Dock Reserve Account that is being established as means of funding any emergency replacement of one of the dock floats and/or gangways. A target cap on the Dock Reserve Account has been set at $25,000 (roughly the cost of replacing one of the floats/docks and a gangway). The separate Dock Operating Account, which is funded primarily from dock space rentals, will continue to be used to pay routine expenses, including the town winter storage fees which have significantly increased (now approximately $2000 per winter season).

   d. All other Operating Account lines remain the same, including the administrative and utilities expenses, as well as the $32,000 budgeted for Maintenance and Repair. This year for the first time in many years, we are projecting to balance this important expense line. We are hopeful, that we are beginning to catch up with routine maintenance at Harborside, although some significant infrastructure Reserve Capital Projects remain for future funding out of Reserve and Special Assessment monies.

2. Reserve Account:
   a. We are proposing to raise the Reserve Account from $15,000 this year to $20,000 in 2006.
   b. Our primary reason for this increase concerns the persistent drainage issue between the B and D Buildings, which continues to cause rotting wood and foundation damage under both buildings and has contributed to the deterioration of the steel I- beam under the D Building. We have two very different priced bids for the work, but we are assuming a total cost of $15,000 to $20,000.
   c. Additionally, if we proceed next year with the I-beam replacement under the D Building, we also need to install a "moisture barrier" over the dirt floor under the building to reduce further moisture damage and possibly a dehumidifier.
   d. As mentioned above, we are anticipating Trust-related expenses associated with the restoration of the Arrigo's Unit. While these costs may be accounted for this year, they could well slide into next year.

Status of the Dock Accounts – In addition to the main Harborside Operating and Reserve Accounts, we maintain two dock accounts, the Dock Operating Account and the Dock Reserve Account. The Dock Reserve Account, as mentioned above, is new this year and currently has a $2700 balance. The Dock Operating Account has a current balance of $11,450.25. Anticipated operating expenses include some extensive repair and painting, hauling at the end of the season and winter storage.

Status of Capital Reserve Projects – In addition to the above financial information, we would also like to update you on current and pending Capital Reserve Projects, which we first presented at the 2003 Annual Meeting and updated at the Annual Meeting last August. These major infrastructure projects resulted from follow-up inspections stemming from the Goddard Report on the state of the Harborside infrastructure (first conducted in September 1995). These projects are summarized below:

- Repairs to the Sea Wall – Project completed in April 05. We expect no further repairs will be necessary for 10-12 years, but we will continue to monitor the southeast corner of the parking lot where some deterioration has occurred. Eventual repair will be complicated by the underlying ledge making it difficult to install reinforcing materials.
- Carpentry & Painting Project – Osgood Painting Company has completed all work less some final "punch list" items, and the above-mentioned A-C Building/trash area carpentry/painting. As mentioned above, we'll decide this fall whether to proceed with this work this year or defer until next year.
- Replacement of corroded steel I-Beam under D Building – The Site Survey engineering report has been prepared by Bergman & Associates and reviewed in detail by the Trustees. We have decided that this project, while critical to the infrastructure of the building, could be deferred until 2006. Early next year, we anticipate requesting a Special Assessment for that project, and obtaining bids for the replacement of the beam later next year.
- B-D Building Drainage – Again, this project was mentioned above and will be accomplished in concert with the I-beam replacement.
- Repair or replacement of the failing North Retaining Wall between Harborside and Boston Yacht Club – Bergman & Associates has prepared an engineering Site Survey. Again, we have temporarily deferred this project until 2006 or beyond, depending on the future pace of deterioration.

Some additional background information –
Last year, our Harborside financial performance resulted in a 2.1% overrun ($2082 over last year's budget of $97,130). This performance was much better than in recent years where very substantial Special Assessments had to be requested to cover "operating" overruns, instead of Capital Reserve Projects.

Unfortunately, last year we were able to only fund the Reserve Account by $4165 (vice a budget of $10,000). The bottom line was that the Reserve Account was, in effect, applied towards an 8% overrun in actual Operating Expenses ($6974 over the Operating budget of $87,130). The majority of that overrun came from unexpected expenses associated with Office Administration, Maintenance & Repair, Landscaping & Cleaning, Water & Sanitation, Snow Removal, and Insurance.

As a result of last year's budget overrun, we raised our 2005 Budget to $112,350, a 16% increase. While there were slight increases in Admin, Utilities, and Common Services, the Maintenance & Repair and the Reserve Account reflected the majority of the increase. In Maintenance & Repair, we increased the budget by 29% (to $32,000 from $24,880 in 2004). The Reserve Account was increased 50% (to $15,000 from $10,000 in

2004). Now, with next year's Reserve increase to $20,000, we are finally beginning to have a viable Reserve Account going forward.

At past owners meetings and in budget correspondence, we have communicated to you that there was minimal investment in Harborside infrastructure from the 1990's through 2002. Common Element Fees increased very little between 1994 and 2001. A small increase in the 2002 Budget was followed with a 20% increase in the 2003 Budget, a 33% increase in 2004 and a 16% increase for this year. We are now proposing an 11% increase for 2006. Significant Special Assessments were necessary in 2001, 2002, and 2003 just to meet operating expenses, while Special Assessments last year and this year have been devoted totally to Capital Reserve Projects.

In short, past investments in Harborside did not keep pace with rising property values or maintenance needs. Additionally, we are increasingly pressed by owners to improve the quality of services in general. For example, we had repeated demands for a higher quality of carpentry and painting services instead of being faced with yearly rotting decks and peeling paint. This year, we have finally addressed this deficiency. If we are to get ahead of the long-standing infrastructure backlog, we have to continue making major investments in Capital Reserve Projects.

The Trustees' goal continues to be the execution of a reasonable annual budget and to execute responsibly to that budget. We have come closer this year than in years past, but we continue to be challenged, as we try to close the gap between years of infrastructure neglect and the demand of owners to keep pace with increasing property values. We have a unique and beautiful place to live, and your Trustees believe these expenditures are prudent and will serve us well in the years to come.

Thank you,

The Trustees

Attachment – Proposed 2006 Budget

HARBORSIDE CONDOMINIUM TRUST

		2005 BUDGET	2006 PROPOSED
REVENUES			
A.	Condominium Fees	$111,550	$ 123,950
B.	Laundry	800	500
TOTAL INCOME		**$112,350**	**$124,450**
EXPENSES			
A.	Administrative		
	1. Insurance	$18,000	$18,000
	2. Management Services	8,400	8,400
	3. Tax & Tax Preparation	150	150
	4. Office Expense	2,000	2,000
	5. Legal	3,000	3,000
	TOTAL	$31,550	$31,550
B.	Utilities		
	1. Electricity	$ 2,700	$ 2,700
	2. Water & Sewer	4,900	4,900
	3. Cable TV	4,800	4,800
	4. Gas	1,000	1,000
	TOTAL	$13,400	$13,400
C.	Common Services		
	1. Rubbish Removal	$ 5,100	$ 5,100
	2. Snow Removal	5,000	$8,000
	3. Exterminating	500	1,500
	4. Landscaping	2,600	3,000
	5. Cleaning & Bulbs	4,000	4,000
	6. Fire System	500	500
	7. Dock Fee	2,700	5,400
	TOTAL	$20,400	$27,500
D.	Maintenance/Repair		
	1. Labor & Materials	$32,000	$32,000
	TOTAL	$32,000	$32,000
E.	Operational Reserves		
	1. Reserve Contribution	$15,000	$20,000
	TOTAL	$15,000	$20,000
TOTAL EXPENSES AND RESERVE CONTRIBUTIONS		**$112,350**	**$124,450**