HARBORSIDE CONDOMINIUM TRUST

July 15, 2014

Dear Harborside Owners,

The purpose of this letter is to provide you information regarding the financial status of the Harborside Condominium Trust, specifically the 2014 year-end budget estimates based on our financial statements as of June 30, 2014. Also included are status reports on the B Building Re-construction, Bank Loan and Special Assessment plans, Dock Accounts and Capital Reserve Projects. For reference, we invite your attention the March 2, 2014 Trustee's Letter to Harborside Owners, which summarized our financial performance for 2013. Also attached are the Minutes from the 2013 Annual Harborside Meeting.

2014 Budget Status and Year-end Projection:

Our assessment of the **Operating Account** follows:

1. The January 1, 2014 beginning Operating Account balance was $4,789.61 (carryover from the 2013 fiscal year). Projected 2014 revenues of $272,325, before the Temporary Supplemental Condominium Fee, will exceed budget by $4,263.
2. Based on expenditures to date:
   a. We are projecting over-runs in the following areas:
      i. Insurance – Master ($5,000). If Travelers opts to renew our master insurance policy, we anticipate an increase in premiums. Our master insurance policy is set to renew in October of this year.
      ii. Insurance – Flood ($8,000). We are projecting an 18% increase in our flood insurance premiums.
      iii. Management Service ($775). Lesley Management was paid in January for December 2013 services, so it shows as an over-run in this year.
      iv. Electricity ($714).
      v. Web Site Expense ($2,801). This was a one-time expense for the old web site. The current web site does not have any expenses related to its operation.
      vi. Telephone Conference ($1,045). Because of the unforeseen and difficult issues and financial consequences facing owners at Harborside, there has been a substantial increase in the number of owners who are calling into the Trustee meetings. The conferencing service we currently use has a fee for the service and then a per person/per minute cost. The Trustees are looking to utilize a fee free teleconferencing service. Hopefully, it will be operational for this year's Annual Owner Meeting.
      vii. Trash Removal ($5,100). We had an under-run of $5,100 in 2013 for trash removal because we were not invoiced for services. We still owe for trash removal which occurred in 2013 and this increase reflects that.
      viii. Snow Removal ($ 2,403). This past winter's snowfall was above normal.

   ix. Landscaping ($500). Due to the extraordinary snow fall this past winter, and the amount of sand used, the sweeping of the parking lot and common areas was much greater this year.
   x. Heating Systems ($1,000). This line item is for Bartlett & Steadman's annual inspection and cleaning of furnaces. The initial budgeted amount is approximately $1,000 less than the invoiced amount.
   xi. Maintenance & Repair (Labor & Materials) ($506)

b. We are projecting additional unbudgeted expenses:
   i. Insurance Expense - LOMA ($2,500). This is a very complicated area of flood insurance. We have retained Hayes Engineering to assist us in addressing this correctly.

   ii. North Retaining Wall Maintenance ($32,500).
      1. $2,500: Survey of the property line between Harborside and the Boston Yacht Club and 20-22 Lee St. Condominium.
      2. $5,000: Payment to a professional engineer to assess the stone wall and concrete block wall and the A Building foundations determine the repairs that need to be done and triage them (from most critical to least critical), and assist in selecting and hiring a contractor to do the repairs.
      3. $25,000: For the most critical repairs.

c. We are expecting under-runs in the following areas:
   i. Office Expense ($177),
   ii. Cleaning ($440),
   iii. Gas ($151), and
   iv. Water & Sewer ($2,150).

d. All other Operating Account lines are tracking to budget.

Our assessment of the **Reserve Account** is as follows:

1. The January 1, 2014 beginning Reserve Account balance was $0.
2. The 2014 Operational Reserves were budgeted for a total of $45,650.
   a. $20,650 - Budgeted reserve Contribution
   b. $25,000 - Budgeted painting project
3. We are projecting an over-run in the painting project budget of $5,000.
4. We are also projecting additional unbudgeted expenses of:
   a. Payment on Personal Loan ($22,266). Trustees Joyce Raymond and Don Nowland made personal loans to the trust under emergency conditions. East Boston Savings Bank has made repayment of these loans this year a condition of our reconstruction loan with them.

b. Fire Door Replacements ($15,200). Travelers Insurance has required that the Trust replace all doors opening into a common hallway with fire-rated and self-closing doors as a condition of our Master policy.

5. We are projecting an under-run in the Reserve Account Contribution ($10,650). The Trustees have opted to use part of the Reserve Account to offset fund some of the unbudgeted expenses. This will result in a lower Temporary Supplemental Condominium Fee increase.

<u>In conclusion, we have an overall projected budgetary overrun of $87,475.</u>

<u>Notice of Temporary Supplemental Condominium Fee Increase:</u> In order to meet the operational needs of the Trust, it is imperative that an increase be made to the 2014 budget. Attached is a revised 2014 Budget, which includes a Temporary Supplemental Condominium Fee increase, effective September 1, 2014 through November 1, 2014.

Owners may pay for this Temporary Supplemental Condominium Fee Increase in one of two ways:

1. Owners may pay in full on or before September 1, 2014. Those who chose this option will have their current monthly condominium fees amount remain the same.
2. Owners may wish to pay in three monthly installments: September 1, October 1, and November 1, 2014. Those who chose this option will see their December condominium fee return to their current condominium fee rate.

The schedule of payments is attached.

<u>B Building Reconstruction:</u>

Design and Approvals: In June, the Trust engaged Peter Pitman and the firm Pitman & Wardley, Architects to assume responsibility for the architectural aspects of the Building B Reconstruction project. After receipt of progress drawings from RZA, verification in the field and final changes, the Trust will receive drawings ready to proceed with construction during the week of July 14. We also anticipate receiving approval of the sprinkler system this week.

Immediately following completion of the interior drawings, they will complete the plans and specifications for the egress design. They will revise some dimensional inconsistencies and address code related concerns, particularly with regard to the egress stairs at the northeast end of the building.

2. Construction Progress: Paradise Construction has completed the replacement of the B Building roof July 11. They should be able to obtain a building permit from the Town of Marblehead next week for the interior work and replacement of doors and windows.

3. Insurance Settlement: We received another incremental settlement check from Travelers in July, and the current Replacement Cost Value is $900,911.51, plus $25,000 for Law and Ordinance. The Trustees continue to pursue additional recovery from Travelers.

Bank Loan for Building B Reconstruction:

All approvals and documentation for the Construction Loan with East Boston Savings Bank have been completed, and the closing of the loan is imminent. The process for drawing funds against the loan and for making interest only payments during construction and principal and interest after construction is completed is explained in the attached explanation regarding the Special Assessment for the B Building Reconstruction.

An informational sheet regarding the Special Assessment for the B Building Reconstruction is attached.

Status of Harborside Dock Committee (HDC) Accounts: Currently, the HDC Operating Account has a balance of $10,791.73 and the HDC Reserve Account balance has a balance of $ 15,969.45.

The HDC is anticipating a little over $5,000 in regular operating expenses for the remainder of the season ($2000-storage, $3,000 – haul, and $122 float fee). There will still be enough funds in Operating Account to cover any unanticipated expenses for the remainder of the year.

The Reserve Account is in good shape. The HDC is anticipating the need to replace all chains in the next few years. The anticipated cost of replacement is between $10,000 and $12,000. The HDC is also planning for and saving toward the replacement or re-decking of the North Float which will be necessary in a few years.

The Trustees anticipate the 2013 HCT contribution to the HDC Reserve Account ($5400), which was deferred from last year, will be paid in December of this year.

Overall, the HDC is financially sound.

Status of Capital Reserve Projects: This year, we have again deferred several projects: D2/D-3 total deck refurbishment; seal coating and lining of the parking lot; addition of blue stone at the C Building entry; replacement of ceiling at entrance to Building C and by Trash Room with bead board or exposed beams; and, replacement of the Car Port Ceiling, which is asbestos.

We are currently addressing the issues concerning the North Retaining Wall between Harborside and the Boston Yacht Club and adjacent to the 20-22 Lee St. Condominium. Our first step is to have a survey done to determine where the property line is located relative to the wall. We have retained Hayes Engineering to do that. Our second step is to hire an engineer who will outline the issues we face, determine the most critical repairs needed and assist us in finding the best contractor to address and repair those issues. The third step, which we hope to accomplish this year, is to repair at least the most critical sections of the wall and to prevent it from deteriorating further. We will be deferring until next year the issues that can wait and don't pose a threat this year.

We are also starting the process of creating a long-term capital projects list. To that end, we will be hiring a firm to inspect all of Harborside, identify repair and maintenance issues, and to list issues from most critical to least critical, that we will need to address over the course of several years.

We are also beginning the necessary process of replacing consistently high maintenance items (decks and railings) with low maintenance materials. Our maintenance and repair costs have skyrocketed over the years, and there is no end in sight if we continue to use wood for our decks and railings. We have consistently underestimated the costs in this area. Though the replacement materials, composite decking and stainless steel railings, have a higher initial cost than wood, in the long run they will be much more cost efficient.

In conclusion, 2014 has been very challenging for all of us...emotionally and financially.

We, as a community, are facing some serious challenges...most of which have been unforeseen.

Flood insurance is a major cost facing Harborside, and one that is unpredictable year to year. The new rules and regulations and Flood Maps from FEMA are making it very difficult to budget and anticipate the actual expense we face. Unfortunately, it is one of the only downsides to living on Marblehead Harbor. We are working very hard, with the help of the Insurance Committee to minimize costs within FEMA's regulatory framework.

The B Building fire has been particularly challenging and frustrating for all of us, but most especially for those who are displaced from their homes. However, we are moving forward and starting the rebuilding process. We hope to be well on our way to completion by the end of the year. In fact, interior work should begin within the next few weeks. We've retained a new architect, Peter Pitman. Peter has been working diligently to finalize the drawings so that we can begin the process of getting the emergency egress approved and built. One source of immense frustration has been the negotiations with Travelers Insurance. We are continuing to forcefully put forward our position, and we continue to leave all options open.

Lastly, though not entirely unforeseen, the list of maintenance projects that demand attention is growing and the costs associated with those projects keeps rising. It is the one area of the budget that seems to consistently over-run year-to-year, and it is overwhelming Harborside. Many projects that have been deferred over the years can no longer be overlooked. And rot replacement projects are becoming an unacceptable norm. The increase in spending in this area is unsustainable. Therefore, we are beginning the long-term project of replacing rotting wood decks and railings with minimum maintenance materials. If a repair is minor, we will repair with like materials (i.e.: wood). But if the repair actually requires replacement, we will do so with composite decking and stainless steel railings. As stated above, though more expensive in the short term, it will save us a lot of money over the long term. We also continue to maintain the upkeep of our infrastructure and look to improve it sensibly, economically and for the long-term benefit of all of Harborside.

Harborside is a unique and beautiful place to call home. I think we can all agree that it is worth preserving and improving upon. We believe the steps we are taking and the expenditures we are making are prudent and necessary to maintain our property values, and they will serve us well in the years to come. And though the challenges have been many this year, we are moving forward in a positive way.

Thank you,
The Trustees

Attachments: *Trustee's Letter to Harborside Owners, March 2, 2014*
2013 Annual Meeting Minutes
2014 Revised Budget
2014 Revised Schedule of Payments
2014 Special Assessment Information for the B Building Reconstruction

Harborside Condominium Trust

		2014 Budget	2014 Projected Year-End	2014 variance
REVENUES				
A.	Condominium Fees	$ 266,563	$ 267,711	$ (1,148)
B.	Special Assessment (Loan)	1,499	2,589	(1,090)
C.	Supplemental Condominium Fee		*87,475*	(87,475)
D.	Other	-	2,025	(2,025)
TOTAL INCOME		$ 268,062	$ 359,800	$ (91,738)
EXPENSES				
A.	Administrative			
	1. Insurance Expense - Master Policy	$ 51,500	$ 56,500	$ (5,000)
	2. Insurance Expense - Flood	45,712	53,712	(8,000)
	3. Insurance Expense - LOMA	-	2,500	(2,500)
	4. Management Services	9,300	10,075	(775)
	5. Tax & Tax Preparation	150	146	4
	6. Office Expense	500	323	177
	7. Legal / Professional Services	4,000	4,000	-
	TOTAL	$ 111,162	$ 127,256	$ (16,094)
B.	Utilities			
	1. Electricity	$ 3,800	$ 4,514	$ (714)
	2. Water & Sewer	7,500	5,350	2,150
	3. Cable TV	5,800	5,800	-
	4. Web Site Expense	-	2,801	(2,801)
	5. Telephone Conference	1,200	2,245	(1,045)
	6. Gas	600	449	151
	TOTAL	$ 18,900	$ 21,159	$ (2,259)
C.	Common Services			
	1. Rubbish Removal	$ 5,700	$ 10,800	$ (5,100)
	2. Snow Removal	7,000	9,403	(2,403)
	3. Exterminating	1,500	1,500	-
	4. Landscaping	8,500	9,000	(500)
	5. Cleaning & Bulbs	5,000	4,560	440
	6. Alarm System	500	500	-
	7. Heating Systems	1,000	2,000	(1,000)
	TOTAL	$ 29,200	$ 37,763	$ (8,563)
D.	Docks			
	1. Fee	$ 5,400	5,400	$
	2. Insurance	2,750	2,750	-
		$ 8,150	$ 8,150	$ -
E.	Maintenance/Repair			
	1. Labor & Materials	$ 55,000	$ 55,506	$ (506)
	2. C-Foundation (survey, engineer, etc.)	-	32,500	(32,500)
	TOTAL	$ 55,000	$ 88,006	$ (33,006)
F.	Operational Reserves			
	1. Reserve Contribution	$ 20,650	$ 10,000	$ 10,650
	Plan: Painting Project of $25K			
	2. (estimate) fm Reserve	25,000	30,000	(5,000)
	3. Payment on Personal Loan		22,266	(22,266)
	4. Fire Door Replacement Project	-	$ 15,200	$ (15,200)
	TOTAL	$ 45,650	$ 77,466	$ (31,816)
TOTAL EXPENSES		$ 268,062	$ 359,800	$ (91,738)

HARBORSIDE CONDOMINIUM TRUST

Revised Common Element Fee Schedule

July 15, 2014

Last Name	**Unit #**	**Condo % (fees)**		**Condominium Fee Jan 1 - Aug.1**		**Temporary Adjustment in fee paid in full**		**-or-**		**Monthly Condominium Fee Sept. 1, Oct.1, Nov. 1**
Alves	C1	3.020%		$671		$2,641.75				$1,551.43
Arrigo	B9	2.850%		$633		$2,493.04				$1,464.10
Brunais	B7	2.850%		$633		$2,493.04				$1,464.10
Coolidge	D1	3.270%		$726		$2,860.43				$1,679.86
DeMoraes	C8	4.190%		$931		$3,665.20				$2,152.48
Curtis	B2	2.930%		$651		$2,563.02				$1,505.20
Garibotto	D5	4.020%		$893		$3,516.50				$2,065.15
Gold	C3	3.020%		$671		$2,641.75				$1,551.43
Jones	C5	4.440%		$986		$3,883.89				$2,280.91
Martin	B6	2.850%		$633		$2,493.04				$1,464.10
Reich	A1	3.270%		$726		$2,860.43				$1,679.86
Reich	A2	1.920%		$427		$1,679.52				$986.34
McKeon	C4	2.930%		$651		$2,563.02				$1,505.20
Curtis	B8	2.750%		$611		$2,405.56				$1,412.73
Michaud	D2	4.770%		$1,060		$4,172.56				$2,450.44
Michaud	D3	4.100%		$911		$3,586.48				$2,106.25
Nowland	D4	5.610%		$1,246		$4,907.35				$2,881.96
Piens Realty Trust	D6	6.620%		$1,471		$5,790.85				$3,400.82
Plauche	B3	4.690%		$1,042		$4,102.58				$2,409.34
Raymond	B1	4.940%		$1,097		$4,321.27				$2,537.77
Raymond	B4	2.850%		$633		$2,493.04				$1,464.10
Segee	C2	5.860%		$1,302		$5,126.04				$3,010.39
Siddall	B10	3.770%		$837		$3,297.81				$1,936.72
Walters	C6	2.930%		$651		$2,563.02				$1,505.20
Walters	C7	2.850%		$633		$2,493.04				$1,464.10
Woodman	B5	2.930%		$651		$2,563.02				$1,505.20
Zoubek	A3	3.770%		$837		$3,297.81				$1,936.72

Prepared : 7/16/201412:46 PM