

MINUTES
FRIPP ISLAND PROPERTY OWNERS ASSOCIATION
ANNUAL MEETING
April 14, 2007
9:00 am

PRESENT: Messrs. Hummer, Young, Buschur, Mathews, Davidson, Newby & Hunter; Mrs. Cantley

ABSENT: Messrs. Davis & Gannon

GUESTS: Mrs. McCormick & Mrs. Merrill

1. Call Meeting to Order and Comments: President Hummer welcomed owners and guests to the annual meeting of the Fripp Island Property Owners Association and called the meeting to order at 9:00 am. He introduced the Board of Directors and Officers who were present: Vice President Bob Young, Treasurer Bill Buschur, Secretary Buck Mathews, Mary Cantley, Bob Davidson, Tom Hunter, and Bob Newby. Newly elected Directors introduced were Micki McCormick, Rita Merrill, and Buck Mathews. Charlie Davis and Joe Gannon were unable to attend. General Manager Kate Hines was congratulated on her recent achievement of obtaining the Professional Community Managers (PCAM) designation. Kate is one of only 1,200 managers nationwide who have earned the highest level of professional designation in the field. Assistant General Manager Tina Reeves was congratulated on obtaining her Certified Manager of Community Association (CMCA) and Association Management Specialist (AMS) designations. Staff members Carol Young and Chief Mike Binkowski were also introduced.

2. Report from General Manager Kate Hines: Mrs. Hines welcomed those present in person and by telephone. As the Association membership continues to grow its non-resident base, which is currently 86%, we'll be expecting more and more owners to call in. The POA will continue trying to keep up with the best technologies in order to include everyone who wants to be included in our meetings. The following overview of FIPOA's activities and accomplishments since last April was presented:

Appeals: There were 33 requests for appeal of FIPOA citations between April 2006 and today. Four were granted, four were reduced, and 25 were denied. Eight appeals are pending and awaiting the next meeting.

Bridges: In 2006, all three POA bridges (Maxwell, Tarpon and Fiddler's Trace) were inspected. Riprap was added at the Tarpon Bridge and voids were detected in the Fiddlers Trace Bridge. The voids were filled using expandable polyurethane foam in December. The Maxwell Bridge came thru the inspection with flying colors.

Covenants: Initially, the Covenants Committee and the Resort were involved in discussions of opening up the Covenants to rewrite them in a cooperative manner. Due to other side issues and agreements, it became clear this approach was not possible, as both parties lacked the authority to make changes in the manner proposed. The Committee is now working with POA's legal counsel on a draft of amended and restated Covenants. This will be submitted first to the Board for approval, then the draft will be offered to the Resort for review and comments, and finally it will be recommended to the owners to vote approval and implementation. We plan for a very thorough education process using The Trawler, the Internet, and the telephone system for question and answer sessions. The filing deadline is April 2009 and there is a lot of work to do to get ready for it.

Crossovers: The POA has 32 beach access crossovers. Since last April, we have made major repairs to crossovers 23, 26 and 29 on Tarpon Boulevard, and two separate extensive projects on crossover 21 on Whiting Road. A marine dock professional who built many of our original structures has inspected all crossover structures. It has been determined that making many minor repairs now to many of the crossovers will greatly extend their useful life and will decrease exposure to injury and liability, and will save money in the long run. In September, DHEC closed the beach due to bacteria for one day. DHEC checks water quality twice a month, every month. If they see a problem, the beach is closed and checked daily until the problem is resolved.

Deer: The Humane Society's team has captured and ear-tagged 28 new females, and recaptured 55 previously tagged female deer. They estimate that 85-90% of the adult females in the Fripp population have been tagged and incorporated into the study. Among the study deer, there are 15-20 untreated control deer;

the rest have been treated at least once with immunocontraceptive vaccines. In the summer, we will be able to report the 2007 data on vaccine effectiveness and island deer population density.

The HSUS team thanks everyone on Fripp for all of their assistance, cooperation and generosity over the past two years.

Grounds Maintenance: We have had a few unexpected issues to deal with this past year, starting with those healthy but hungry deer. They have decided that the front of the Island is their very own McDonald's and have eaten anything and everything with color that we plant up there. The use of expensive deer repellent was also tried, but to no avail.

--The irrigation headaches of 2005 continued, this time at the River Club wall. Water loss and repairs cost over \$6,000. We also had to deal with the ambrosia beetles in the Red Bay trees and had to remove all red bays on POA property.

--Palm trees in POA rights of way were trimmed in February.

--We have increased the detail given to maintenance of POA properties, and by adding dog-waste stations and trash cans along the common areas we have enlisted your help to keep things neat and tidy.

Human Resources: The POA strives to hire and retain the best employees, and to that end the HR Committee reviewed our salary ranges and benefits and adjusted them to be better in line with communities like ours, which makes us more competitive. Newly implemented this past year are drug tests for new hires, and exit interviews for departing employees. Both programs are proving helpful.

Lakes & Lagoons: Currently six aerators are working perfectly and one needs a new motor, which is under warranty and on order. Also last year in Lakes, there was a clogged dam, which required a good cleaning. We were fortunate that we only had one fish kill last summer considering how low the water levels were in the lakes.

The **Long Range Planning Committee** was appointed in March. It is anticipated that there will be a six-month strategic planning process with the result of seeing what Fripp might look like in the next 25 – 30 years.

Roads and Drainage: Since last April, Fairway Club Drive, Grouse Point, and Dolphin Road from Rock Beauty to Marlin have been resurfaced. We made some major drainage corrections to Whitetail Court and Sea Otter Lane. The South Tarpon drainage took awhile, but it finally is working. The committee is hard at work planning and trying to budget for a repaving and widening project on Tarpon from Skipjack to Rock Beauty that will include improved drainage. Please keep in mind that every asphalt road cut by PSD's installation of the vacuum sewer system has been temporarily repaired. We have a plan to resurface these roads, but budgeting in light of rising petroleum costs is a challenge.

The **2007 Nominating Committee's** term lasted just two months, but their task was important. The committee succeeded in finding a great slate of candidates to include many women and one man. There were four female resident nominees, and three non-resident candidates, including one male. Please think about offering your name for service on the 2008 nominating committee.

Security: Over the past few years - even as the number of vehicles of owners, guests, and contractors coming onto the island has significantly increased - we believe Fripp Island Security has vastly improved. At the same time, costs have been lowered for the property owners. To illustrate this, the Committee has prepared a binder with a number of charts. This information will be available in the POA office.

We have a unique twofold problem on the Island that is different from other communities. The first part of the problem stems from the distance from the Sheriff's Dept. in Beaufort to Fripp. It takes an average of half an hour for Sheriff's deputies to respond in an emergency. Subsequently, we must keep at least two officers available at all times to assist with any call for help on the Island. Second, we have a large influx of tourists at various times of the year, as well as a significant number of construction and maintenance workers that build and renovate our houses. All are welcome, but at the same time, we must keep the peace.

--Over the last five years, the total number of vehicles coming through the gate has increased from 370,000 in 2001 to over 400,000 in 2006.

--The number of contractor passes issued each year has increased from 5,000 in 2001 to over 15,000 in 2006. The number of guest passes issued has increased from around 27,000 in 2001 to over 33,000 in 2006.

--Since 2002, we have gradually changed the composition of our security vehicles from four sedans and an SUV to zero sedans, two SUVs, a pick-up truck, a moped, and a golf cart. The current composition enables our officers to mingle more with the population and saves money because the engines in these vehicles are more fuel-efficient than the sedans were.

--The security force has been reduced from 20 officers to 15-1/2.

--Actual expenses of the security department have declined from around \$520,000 in 2001 to around \$460,000 in 2006. We think this relates very well to controlling the security situation on the island.

--The number of state citations has declined, and the number of Fripp citations remains level. Our officers are issuing verbal and written warnings where possible. We believe this has helped change the attitude towards Security.

We find these trends of a smaller, flexible security force, fewer numbers of large vehicles, declining actual costs, and declining state citations to be heartening.

The Trawler has been thru quite a transformation in the past year. Formats were switched twice and now the issues are mailed directly from the printer. Sending the Trawler off from the printer means our folding helpers aren't here as frequently as before, but they still offer their folding and stuffing expertise for assessment and ballot mailing.

Miscellaneous: In October, the Board signed a five-year contract for post disaster clean up. We feel that it is essential to be as prepared as we can possibly be. The contract allows us to be pre-positioned for a disaster, but we do not have to pay for the service until and unless we actually need it. The service for POA would include clearing all roads and common areas of debris and doing damage mitigation to our two buildings. A second part of the contract offers damage mitigation for individual property owners. To date, 75 owners have signed the right of entry agreements and given us the required \$1,000 deposit.

--We had a problem this year with feral cats. The Board purchased two "Have-a-Heart" traps for owners to borrow, and we have had a good many owners do just that. Please let us know if you need to use the trap.

--Wireless Internet has been installed at the office. If you are visiting the Island, come to the office with your laptop. If the office is closed, you'll get service in your car.

--The mailbox refurbishment project started in 2006 will be updated. It is time to again photograph the old and dented mailboxes. The response last year was really positive, and if you are an owner of a noncompliant mailbox who is asked to fix your mailbox this year, please get it repaired in a timely manner.

--In earlier years we worked jointly with PSD to keep all owners informed of their projects thru the POA website; now that they have their own site, we still try to help each other communicate with every owner. We attend each other's meetings and help each other with road and bridge maintenance. We continue to try to be aware of what the other is doing.

--There is a positive attitude of cooperation between the POA and the Resort. From top management down to the maintenance division, the Resort and the POA work together on many issues.

--Appreciation was expressed to POA staff chief Mike Binkowski, Assistant General Manager Tina Reeves, Administrative Assistant Carol Young, bookkeeper and webwitch Cyndi Follich, and the entire Security Department; to departing Board members Tom Hunter and Bob Young; and our current Board of Directors – Paul Hummer, Bob Young, Buck Mathews, Bill Buschur, Mary Cantley, Bob Davidson, Charlie Davis, Joe Gannon, Tom Hunter, and Bob Newby. Congratulations and welcome to our new Directors – Micki McCormick and Rita Merrill, and the not-so-new Director, Buck Mathews.

3. REPORT FROM TREASURER BILL BUSCHUR

Appreciation was expressed to the Finance committee for their efforts and hard work this past year. Committee members are Bruce Jentner, Rebecca Beskow, Bob Davidson and Eric Gnau. They all have strong financial and accounting backgrounds and are valuable assets to the Board.

A look at our 2006 Year-end financial status:

--Total income increased to \$2,158,000 (+7.7%).

--Assessment income showed a modest increase to \$1,634,000 (+3.3%)

--Commercial user fees went up to \$323,000 (+8.9%).

--Interest income increased significantly from \$54,000 to \$118,000, more than double (+117.5%).

- Total expenses increased \$24,000 (+1.4%) to \$1,732,000.
- Total administration expenses increased \$38,000 (+18%) to \$250,000. Part of that was a revision to our bookkeeping practices
- Security expenses declined again from \$520,000 to \$473,000 (-9%).
- Crossover expenses increased \$20,000 (+50.7%) to \$59,000.
- Road expenses decreased \$81,500 (-17.6%) to only \$382,000.
- Bridge expenses went up \$42,000 (+47.1%) to \$131,000.
- Communication expenses dropped \$10,000 (-51.2%).
- We had an income tax liability of \$28,000. This is a result of our accountants' reviewing our allocation procedures and recommended a more conservative approach to our expense allocation
- Our total net income was \$425,500.

At the end of 2006, we had slightly over 2 million in cash and cash equivalents. This is presently invested in Treasury Bills and money market funds.

--In 2006, Miller Dodson and Associates completed the replacement reserve study which valued our current assets at \$5,167,475. The reserve fund had a year-end balance of approximately \$1,500,000. The Miller Dodson report details a repair and maintenance schedule and replacement costs of these assets based on normal economic life. The study is a best-guess scenario of reasonable repair and maintenance expenditures.

The Finance Committee reviewed the financial assumptions used for the projections. The Committee feels most comfortable using the following financial assumptions: 7% Assumed rate of return on Reserve Fund, 5% Assumed rate of inflation on expenditures and 4% Assumed increase in Annual Reserve contributions. Based on the assumptions used, the reserve fund does meet the projected expenditures over the next 30 years, but with little margin for error. In 30 years (2036), the Reserve Fund year-end balance is projected to be \$3,355,053, which, when adjusted for inflation, will be lower than today's balance of approximately \$1,500,000. This scenario also requires a relatively high annual increase (5%) to adequately fund the Reserve Fund over the next 30 years. If expenditures are higher or income is lower, the Reserve Fund will be inadequate. There are three ways to improve the financial outlook for the Replacement Reserve Fund:

1. Reduce or delay repair and maintenance expenditures.
2. Change the assessment mechanism to increase the contributions to the Reserve Fund.
3. Increase the long-term average rate of return the Reserve Fund. This can only be done with a careful development of an investment policy that is safe, realistic, and prudent. This investment policy must be within the statutory guidelines of the appropriate governing laws.

To improve the probability of achieving the above results, the Finance Committee is in the process of developing an investment policy recommendation which conforms to the South Carolina Prudent Investors Act. We have mailed out Request for Proposal's from a number Financial Management and brokerage firms. We will then entertain presentations by at least three of these companies. Once approved by the Finance Committee, this investment policy recommendation will be presented to the Board for its review and approval.

4. REMARKS FROM PRESIDENT PAUL HUMMER: Mr. Hummer noted that we spend too much time in the present without realizing what has happened in the past. A look back at the past ten years shows the following:

- We have had three different Resort owners: Hornsby and Willis, Bauer and Keller, and now the Wardle Family. Each owner has had different objectives and different styles.
- The number of housing units are up by 357, a 30% increase.
- Taxes paid by owners have gone from \$2.2 million to \$7.5 million, a 340% increase.
- New construction is estimated at \$140 million.
- Remodeling and renovation costs are estimated at \$30 million.
- New sewer plant and collection system is estimated at \$10 million.
- Davis Love and Audubon Parks were completely renovated, mostly funded by the Women's Club and with the POA's help, at a cost of approximately \$75,000.
- The Owners' Survey done three years ago resulted in many improvements/suggestions, including changes in security and greatly increased property owner involvement
- The change in POA management from a strong Board to a strong Executive Officer management, in accordance with the new Bylaws.

- The Reserve Study identified \$18 million+ capital improvements needed in the future.
- Major expense areas: Roads and Bridges equaled \$4.3 million; Crossovers, lagoons, grounds equaled \$1.2 million.
- Disaster Recovery Plan: Fripp is one of the few private communities to have such a plan.
- We are reactivating our Long Range Plan to give us a better idea of the future needs of the Island.

5. Questions and Answers:

(Q) Can anything be done about owners' trash receptacles that are left out on the street? They are an eyesore and a health hazard.

(A) This issue has been discussed by both the POA and the ARB. If the POA office is notified of the address, we send a letter to the property owner. ARB will do likewise.

(Q) Will the beach renourishment program on Hunting Island affect Fripp Island?

(A) The PSD has had two different experts look into this and received two different opinions. It was noted that their renourishment has actually built our beach over the past 10 years. The Beach is continuously changing due to tides and currents. There is currently a lot of beach at the north end.

(Q) What is the current plan for the Tower Lots?

(A) There are plans to build two houses now rather than four. A small part of the bike path will have to be moved.

(Q) What is the current plan for the houses near Springtide?

(A) There will be 13 units that are long and narrow, similar to Charleston style.

(Q) Will there be a Make a Difference Day this year?

(A) No. Make a Difference Day will be held every other year.

(Q) Does the POA have any authority about the future development of the Island?

(A) No. Beaufort County is responsible for approval of subdivisions; the ARB is responsible for individual homes. The POA does not have representation on the ARB Committee.

6) Adjourn: The meeting was adjourned at 9:50 am and all attending were invited to have refreshments in the meeting hall.

Respectfully submitted,

Buck Mathews
Secretary

*Minutes are not the official record of proceedings until the Board of Directors has approved them at the following meeting. Please hold this draft until you pick up the next meeting's draft that will contain corrections as made and approved by the Board.

** To participate in Board meetings by teleconference, owners may call 1-888-311-9051; then 56413#.