

YELLOWSTONE CONDOMINIUM OWNERS ASSOCIATION

Dear Yellowstone Condominium Owner,

The Board of Directors of your Association is asking you to vote on two very important proposals:

Proposal 1- By-Laws Amendment. Rationale: Following current trends in the Condominium Association industry, an Amendment of Association By-Laws to remove the requirement for an annual audit of the financial records is proposed. The Association By-Laws were adopted in September, 1973. The section titled “Managers” on page 5 of the original By-Laws envisioned that the Manager of the property would maintain the financial records and affairs of the Association. Although this function was transferred many years ago to be performed under the supervision of an independent Certified Public Accountant, the audit has continued to be performed annually. The expense of an audit has grown from probably only a couple of hundred dollars in 1973 to approximately **\$3,000** today. In essence, we have been paying a significant amount for a second CPA to audit the work of our CPA. A further justification for this change is that effective January 1, 2011, your Board authorized the closing of the Manager’s checking account and the consolidation of **all** check writing and deposits to be under the supervision of our CPA. The proposed amendment to this section of the By-Laws is as follows:

(c) A formal audit of the accounts of the Association shall not be required as long as the accounts are maintained by a professional accounting firm under the supervision of a Certified Public Accountant. However, an audit may be authorized at any time by the Board of Directors or by a majority of ownership interests at any regular or special meeting of the Association.

Proposal 2- Exterior Renovation Project. Background: The Yellowstone Condo Association has struggled for several years with how to best address the condition and appearance of the exteriors of our Association’s fifteen buildings. The buildings are nearly 40 years old and routine maintenance has not kept up with deterioration caused by time and weather. The 2009-2010 Board proposed a \$1.5 million project that would replace all existing siding, decks and entry stairs and doors. The Owners voted last year to reject this proposed project as follows:

22.0296% of ownership interests voted – Yes (8 units)

60.9183% of ownership interests voted – No (27 units)

17.0521% of ownership interests did not vote (7 units)

The primary reasons cited by Owners for rejecting last year’s proposed project were that it was too costly, an inadequate number of bids was received, the debt would adversely affect Owners’ equity, rental rates did not support this big an increase in cost, and some Owners just couldn’t afford it.

The matter was placed on the agenda of the Annual Owners meeting held on August 14, 2010. At that meeting an informal group of Owners was requested by the Board of Directors to present a less-costly alternative. A presentation was made principally by James Baker (Unit 78) and Bob Doss (Unit 74). In concept, the alternative presented consisted of repairing or replacing wood siding and wood trim as needed, especially on the south and west sides. Siding, fascia, trim, windows and doors would be caulked to mitigate water and air intrusion. All exterior wood surfaces would be prepped and have a product called “Never Peel” applied. This product is designed to reduce and stop paint peeling problems. It forms a flexible membrane that allows vapor transmission while

bridging cracks in wood and bonding unsound surfaces. Two coats of latex paint would be applied (See enclosed mock-up for suggested painting scheme). All broken or listing concrete pads at entrances would be replaced. Exposed concrete foundation walls would have decorative stone applied. All exterior common area lighting and posts (6 ea.) would be replaced. A new Condo identification sign would be installed at entrance with PM lighting. New trash enclosures would be built to accommodate larger trash bins and a secured small storage room per enclosure. Individual unit number signs would be replaced. In summary, this plan is not a short-term cosmetic fix, but would provide a cost effective solution to the problems with our buildings' condition and appearance for many years to come.

The Owners attending the Annual Owners meeting unanimously endorsed this alternative approach and requested that the 2010-2011 Board of Directors proceed with developing costs and other details for the review and approval of the Owners.

The 2010-2011 Board of Directors appointed an ad hoc committee with expertise in construction and building maintenance to develop specific recommendations and associated costs. Members of the ad hoc committee include:

- Bob Doss, Owner of Unit 74. Bob serves as Chairman of the committee. He is a licensed and bonded General Contractor in California.
- James Baker, Owner of Unit 78. James is President of the YCOA Board of Directors. He is a retired hospital and health system executive with extensive experience in managing major building programs.
- Kevin Cook, Owner of Units 80, 90 and 92. Kevin is associated with Gene Cook Real Estate in Bozeman. In addition, he owns and operates numerous commercial and residential properties in the region.
- Scott Hammond, Owner and President of Hammond Property Management. Scott has extensive knowledge of the Big Sky construction market and has managed similar projects at other condominium complexes of the same vintage as Yellowstone Condos.

With the assistance of an architect, Ed Ugorowski of Design Partnership, Inc. in Bozeman, the committee developed a professional Scope of Work and Bid Specifications. Bids were solicited from area contractors which resulted in the following proposed budget for the project:

• Wood replacement based on approx 15% on S & W sides	\$40,000
• Prep & caulk siding, trim and around exterior windows	\$78,000
• Prime and paint all siding, trim and exterior doors	\$145,000
• Supply & install stone on exposed foundation areas	\$22,000
• Remove, prep & pour new concrete pads at entrances	\$12,000
• New exterior lights and posts	\$3,000
• New Condo identification sign	\$5,000
• New Trash bin enclosures	\$12,000
• New individual unit signage	\$3,000
• Construction period interest	\$5,000
• Contingency	\$25,000
Total Preliminary Budget	\$350,000

Financing. Big Sky Western Bank has extensive experience in providing financing for Condominium Associations. Also, our banking accounts have been with this bank for many years. Big Sky Western Bank's loan committee has approved our request for both interim

financing during the construction period at 5.75% and permanent financing for a five-year period at 6.75% fixed.

Owners who elect to pay their proportionate share, rather than financing with the bank loan terms (5 years), will be allowed to pay the full amount during a window between the time construction is completed and prior to the Association proceeding to the permanent financing. We anticipate this to be sometime in the Fall of 2011.

Owners can compute their approximate share of the cost of this project by multiplying their unit's Ownership Interest % times the total projected cost of **\$350,000**.

Unit 71	1.8947%	Unit 72	1.8947%	Unit 73	2.7938%
Unit 74	2.7296%	Unit 75	2.7296%	Unit 76	1.7340%
Unit 77	1.9268%	Unit 78	1.9268%	Unit 79	1.7020%
Unit 80	2.9223%	Unit 81	2.9865%	Unit 82	3.0507%
Unit 83	2.9865%	Unit 84	2.8902%	Unit 85	2.8902%
Unit 86	1.8304%	Unit 87	1.9268%	Unit 88	1.9910%
Unit 89	1.8304%	Unit 90	2.8902%	Unit 91	2.8902%
Unit 92	2.9544%	Unit 93	1.8947%	Unit 94	2.8902%
Unit 95	2.8902%	Unit 96	1.7983%	Unit 97	1.9910%
Unit 98	2.0873%	Unit 99	1.7983%	Unit 100	2.8581%
Unit 101	2.8581%	Unit 102	2.9865%	Unit 103	2.9865%
Unit 104	1.8626%	Unit 105	2.0873%	Unit 106	1.9589%
Unit 107	2.8259%	Unit 108	2.7296%	Unit 109	2.7296%
Unit 110	1.6378%	Unit 111	1.8626%	Unit 112	1.8947%

In summary, your Board of Directors recommends that you vote to approve both of these proposals. As indicated in an earlier "Owners Update" dated January 3, 2011, the current year's Operating Budget reflects a 15.75% reduction from the previous year's Budget. It was developed based on an assumption that both proposals would be approved by the Owners. Operational cost savings over the next 5 years because of decreased maintenance will pay for a considerable portion of the proposed renovation project. Failure to receive greater than 75% approval on Proposal 1, and greater than 50% on Proposal 2, will result in having to increase the current year's Operating Budget and therefore assessments in future quarters to secure adequate funding for the Association.

If you have any questions regarding either of the proposals, please contact one of your Board members listed below. Thank you.

James "Buddy" Baker	#78	228-860-2232	bb082250@bellsouth.net
Jerry Gleicher	#82	914-844-0643	jgleich@optonline.com
Diane Doss	#74	858-472-4889	grandmabob54@yahoo.com
Margaret Trimiew	#86	406-600-1513	margarettrimiew@yahoo.com
George Rodriguez	#89	336-293-3535	georgerodriguez@yahoo.com

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