

PROSPECT PLAZA CONDOMINIUM ASSOCIATION
313 – 315 Adams Ranch Road
P.O. Box 2975
Mountain Village, CO 81435

September 26, 2006

Dear Unit Owners:

As I mentioned in my last letter, the Board has been working on a number of budget issues. As I am sure you are aware, very little money has been put into this building over the last 10 years, except for expenditures to fix the elevator and to come into compliance with Mountain Village requirements. These expenditures were covered by funds set aside by the Declarant in 2002/2003. The Association this year incurred maintenance expenses of more than \$12,000 to repair water leakage, fix drain problems, repair boiler valves, etc. This does not include \$2,600 in elevator repairs and approximately \$4,000 to subsequently replace the motor. None of this was budgeted for as the 3% increase in dues for 2006 simply covered increased operating costs, just as utilities, insurance, etc. In fact, from October 2005 to September 2006, the Association incurred or contracted for expenses almost \$13,000 more than its income - necessities like repairing leaks, fixing the elevator. And there are still a number of capital repairs that must be done to the building in order for it to maintain its value.

Therefore, the Board felt it was their responsibility to implement a comprehensive operating budget which would realistically cover the Association's on-going expenses and to prepare a capital expense budget to cover necessary capital costs for 2006 and 2007. The board also believes that it is necessary to begin to build up a reserve fund, but we have postponed the implementation of that plan until 2007 – 2008.

Included in this letter is 1) the 2006-2007 Operating Budget which the Board has approved as well as the increase in monthly assessments to support that budget and 2) a review of the required capital expenditures and a recommendation on how to finance those expenditures. The Board has scheduled a meeting on October 9th at 5:00 pm to review the operating budget and to propose a capital budget and the assessments necessary to support that budget. It is the Board's plan to make a presentation on the budget and capex and then to open the floor to questions and comments. It is important to try and get some of this work done before winter sets in and this is the only date that the entire board is in town. We feel this is important so the Association can have a full discussion on the matter.

Operating Budget

Expenses for the on-going operating budget show an increase of 0.9% over 2005-2006 expenditures. But this requires an average increase in assessments of 16.7%. Four budget attachments are enclosed. The first attachment is the budget, which shows the totals for October 2005 to September 2006. The month of September 2006 is still a forecast number because I have yet to receive one of the bills which should come in the next several days. Also, I have put in an estimate of the final bill to repair the elevator motor. The attachment shows the total 2006-2007 expenses by category but when I return to Telluride at the beginning of next week, I will post a spreadsheet to the website which shows expenditures by month. The second attachment shows the explanation of the certain budget items. The third attachment shows how expenses were allocated among unit owners. This is the same formula which has previously been used for assessment allocation. The only difference is that KN Energy agreed to take some extra expenses which would normally be allocated to the 315 building so that the increase in assessments for all unit holders is in the same range. The fourth attachment shows the increase for each unit holder.

Capital Expenditure Requirements

Following is the list of capital expenditures which the Board feels are vital to be completed during the next budget year. I have highlighted the items which really need to be completed before the winter sets in. As I mentioned, at the October 9th meeting, the Board will make a detailed presentation with more detailed outside estimates for costs. But we thought it was important that we gave the unit owners an idea of what the Board is planning to formally propose, based on our initial estimates.

Complete north outside wall of 315 Building*	\$35,000
The north side of the building was “temporarily” finished when the building was first built because it was planned to build a second building which would be attached. This is not going to happen. The “temporary” siding now has holes in it, allowing water to seep in. It is time to finish this building. We are proposing what we feel is the most cost effective way to do this by using a metal siding on the building.	
Asphalt the entrance to the property (to be equally shared with 648B & 649) – estimated total of \$30,000.	\$10,000
The Board looked at repairing the potholes but we believe that it is ultimately better and more durable to completely re-asphalt properly.	
Repair stucco on south side of the Building including repair of water damage & any roof/gutter leaks above the back 2-3A balcony*	\$ 6,000
The Board believes this needs to be done before winter to prevent further damage, particularly the severely damaged area above the back balcony.	
Posts and chains to define parking areas	\$ 5,000
Trucks are backing into KN Energy fences and into the north side of the 315 Building. Barriers to prevent trucks from backing in too far	

are required so that damage to fences and building, which is costly to repair on an on-going basis, is avoided	
Drainage solution at base of driveway at entrance to garage*	\$ 5,000
Water accumulates at garage entrance because the drain does not work properly and drainage from ground level also flows into the garage area. There may be a more permanent (and costly) solution ultimately needed but we need to take some action to mitigate drainage issue. Details of proposed solution still being finalized.	
Repair fire system*	\$ 2,000
Despite servicing, the system continues to beep continuously which is not proper. Needs to assess and properly repaired	
Payment for paving back parking areas	\$10,000
Payment was made in 2004 to Telluride Gravel for paving the Association's parking easement. The Board arranged a loan from our bank to cover the remaining due to GW Concrete. But the payment was offered but never made due to a dispute arising out of a letter to the Association in March 2004 from the owners of Lot 648BR.	
Payment of Accounts Payable currently on the Balance Sheet of the Association	\$10,000
This includes remaining fund due to Mericana for repairing leak in roof last spring and other repairs of the building. Mericana has been carrying this debt but given the change of ownership, we must put our obligations on a commercial basis. It also includes payment for the new elevator motor, which was expensed in 2005/6 but has not yet been paid	
Contingency	\$ 7,000
TOTAL	\$90,000

After preliminary discussions with Alpine Bank, the Board believes that a portion of these capital expenditures can be financed with a bank loan, reducing the amount needed in an up-front capital assessment. But the bank would require proof of the Association's ability to service that debt (i.e. interest and principal repayment) in the form of dedicated on-going assessment assigned to debt service. The Board will have a detailed proposal related to financing the above expenditures at the October 9th meeting.

I realize this is a lot to digest but it is necessary for all of us to come to terms with what is required to keep up this building so that our investments are not diminished. The Board looks forward to discussing these issues with all of the Unit Owners on October 9th at 5pm.

Sincerely,

Judy Thompson
President

PROSPECT PLAZA BUDGET

October 2006 to September 2007

2006-2007 Budget Explanation

Attachment 2

- (1) 2006 Figures are October 2005 through September 2006. September figures do include some estimated numbers, i.e. the exact bill to repair the motor on the elevator. The operating budget year is October 2006 through September 2007.
- (2) The amount of assessment was increased so that the budget would break even. For this budget year, we are not making any contribution to a reserve. Current reserves are \$0.00.
- (3) 2006 includes a \$4,000 charge for the repair of the elevator motor, as discussed in the last letter to the Unit Owners. The on-going maintenance is budgeted at \$3,000. Because of the design of the elevator, the fact that it is exposed to the outside where dirt can get in the mechanism, and it is also located in an unheated tower, the cost of maintenance has always been high. Additionally, Colorado Elevation has indicated that there are several other factors which could potentially have problems in the future. So we have budgeted \$3,000 for 2006-2007 maintenance.
- (4) Insurance is projected to go up about 6% which is in-line with historic increases. Insurance included property insurance for 315 Adams Ranch, plus liability as well as D&O insurance. 313 Adams Ranch (K&N) is covered by their own corporate policy.
- (5) Janitorial is currently provided by Night and Day. The Board however is also seeing whether quality janitorial services can be provided by another company at lower cost. But at this stage, we felt it prudent to budget a 5% increase in the current service cost.
- (6) Landscaping is budgeted at 5% over the 2006 Contract of \$3,240.
- (7) Management Fees. As mentioned previously, Rhea resigned her position effective August 12th. Through the end of the year, Judy Thompson will do the accounting work with no charge. Beginning January 1st, it is the Board's plan to hire someone to do the accounting at a fee of \$250 per month. Rhea was paid \$520 but had more responsibilities than simply accounting. Those other responsibilities are now being done by the Board.
- (8) We have budgeted \$6,000 in legal fees. Ongoing fees are in the vicinity of \$2,000 and the additional amount relates to issues with the Parking & Access Easement granted to 648A by 648BR, as a part of the approval to split the lot in 2002. It was brought to the Board's attention at the July 26th Board Meeting that the Easements were unilaterally revoked several years ago. This Board felt it necessary to get legal advice on the matter (our Association counsel is

conflicted on this matter), and to take action to protect the Association's property rights. During 2006-2007, we also spend \$2,000 on this matter.

- (9) The Board felt it was necessary to budget \$12,000 (or \$1,000) for ongoing maintenance. This year we had expenses of that much but had no budget to cover them. As a result, we have considerable payables outstanding to Mericana who is carrying much the cost of those repairs, until we can repay them. This situation cannot continue.