

Neptune House

Block Island, RI

A stylized trident icon, positioned to the right of the text 'Block Island, RI' and below the main title.

March 2017

MESSAGE FROM THE BOARD PRESIDENT

Phil Totino, President

The Annual Meeting of the Neptune House Owners Association was held on March 18, 2017 at the Latitude 41° Restaurant in Mystic, CT. 78 owners attended.

After welcoming remarks, there was a brief update on the status of the initiatives comprising the Turnaround Plan announced last year. Of the six initiatives, three have been completed, and the other three were discussed in detail during the meeting. The completed initiatives are:

- **Hiring a management company.** Our first year with VRI has gone very well. The people are great to work with and have brought a wealth of expertise in running a timeshare resort. Their tools for budgeting and financial management have been particularly helpful to the Board.
- **Implementing a collection policy.** We foreclosed on 80 delinquent accounts and engaged a law firm to pursue collection from the former owners (whose debt was not absolved by the foreclosure action). At the end of 2016 there were 11 accounts in default out of a total of 586 in the hands of individual owners. This is a default rate of less than 2% which is extremely low by industry standards. Procedures now in place are designed to help prevent delinquencies from occurring, and to resolve them expeditiously if they do occur.
- **Implementing Proposition 30.** We condensed our season to 30 weeks including 4 float weeks, and we held a float week amnesty that allowed owners who no longer wanted float weeks to deed them back to the Owners Association. Half of the float weeks in the hands of individual owners were returned to the Owners Association via this program. At the end of 2016, there were 62 float weeks (out of a possible 92) owned by individuals.

This newsletter contains summaries of information presented at the Owners Meeting about the other three initiatives: **Conducting a Reserve Study, Restoring the Pool, and Implementing a Robust Sales and Marketing Program.** Results of the election of Board members are also reported along with general updates on the financial condition of the resort and on improvements to the facilities.

Feedback from owners during and after the meeting was generally positive and supportive of the leadership and direction that the Board is taking. In addition, owners made a number of suggestions during the Q&A session. All will receive thoughtful consideration by the Board.

The slides presented at the Owners Meeting are available for viewing through the Owners Portal of the VRI website by clicking on **Owners Meeting Slides 2017** in the Newsletters & Notices section. You must log into your account to view the slides.

Election of Directors and Results

Chris Lindgren, Secretary

The proposal to have staggered terms for the five members of the Board of Directors was approved. Results of the election to the Board are shown below. Ties were broken based on ownership seniority, with longer tenure providing higher placement.

Owners, without regard to Association-owned shares, cast votes either by proxy or in person at the meeting as follows:

Jeff Anliker	237 votes	3-year term (expires March 2020)
Phil Totino	216 votes	3-year term (expires March 2020)
Mark Morrisette	216 votes	2-year term (expires March 2019)
Cheryl Moore	206 votes	2-year term (expires March 2019)
Dennis Palumbo	206 votes	1-year term (expires March 2018)

Congratulations to all.

2017 Sales and Marketing

Michael McManus, VRI Director of Resort Operations

The Board hired a sales and marketing team, Points Plus, LLC, to sell resort unsold weeks to new owners from the surrounding areas. Sales reps will also be overseeing the implementation of the resort's new points reservation system and contacting owners to answer questions and provide additional information.

The presentation on this topic at the Annual Meeting covered the approaches being taken to:

- 1) assist owners who wish to resell their shares and
- 2) get shares held by the Owners Association into the hands of paying individuals.

Individual Owner Resales - To assist owners in reselling their shares, the Board has developed a **Reseller's Handbook**. Please see the article entitled **Reseller's Handbook** below for more information.

Owners Association Inventory - To sell the inventory that the Owners Association controls, the Board decided to actively participate in Interval International's Club Interval Gold points program, and to hire a sales firm to market Association inventory based on point values. Please see the article entitled **Club Interval Gold Points Program** on page 3 for more details.

Reseller's Handbook

To assist owners in reselling their shares, the Board has developed a **Reseller's Handbook** packed with helpful information. The Handbook contains sections on Sales Channels, Lead Time, Setting Your Asking Price, Ad Copy, Legal Matters, and a Deedback Program that explains the mechanism for owners to deed their shares back to the Owners Association if certain conditions are met.

One of the key conditions of the Deedback Program is that the owner must pay two years of maintenance fees in advance and relinquish ownership rights so that the Owners Association has time to try to sell the share without suffering a loss of revenue in the interim.

The **Reseller's Handbook** is available through the Owners Portal of the VRI website by clicking on **Policy Reseller's Handbook** in the Documents & Forms section. You must log into your account to view.

Over the next year, the Board will monitor the effectiveness of this tool and make adjustments and revisions as warranted.

Club Interval Gold Points Program



To move the inventory of 100+ shares in the 30-week resort season that the Owners Association controls, the Board is taking a two-step approach. The Board has decided to actively participate in Interval International's Club Interval Gold points program, and to hire a sales firm to market Association inventory based on point values.

The Club Interval Gold (CIG) points program assigns a certain number of points to a share based on resort quality, unit size, and seasonal desirability. An owner can either make use of the share at Neptune House or use the points to reserve one or more weeks at any Interval International resort that participates in the CIG program.

The CIG program also allows members to apply points towards the purchase of a cruise, spa, or golf vacation. Furthermore, there is an option for Short Stay exchanges which allow members to use their points in day increments. Members can also combine points from multiple deposits to trade up to a larger unit and/or a more desirable season.

The timeshare industry is steadily moving towards a points-based model, as it is more appealing to younger generations of vacationers who want flexibility from year to year.

In conjunction with this, the Board has entered into a Sales & Marketing Agreement with Points Plus, LLC which will market Association inventory based on the CIG points model. Over the next year, this firm will be marketing shares to people whom it identifies via demographic data analysis as having high probability of interest in this type of vacation opportunity.

Additionally, existing owners will have the option to convert their shares to the CIG points program. There will be costs to owners to do so, as Interval International requires conversions to be handled through approved third parties such as Points Plus, LLC. Representatives of Points Plus, LLC will be contacting owners directly, and will provide specifics to those who wish to consider this opportunity.

Financial Status

Mark Morrissette, Treasurer

During 2016, there was significant improvement in the financial status of the resort, and we began building the foundation for long-term financial stability.

Direct comparison to previous years is difficult because different and inconsistent accounting principles were used. The financials for 2016 and forward will follow Generally Accepted Accounting Principles (GAAP). We've tried to normalize the numbers in the tables below to provide some historical perspective:

Historical Financials

Gain/Loss(\$000)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Net Assessment*	\$586	\$705	\$681
Plus Additional Revenue			\$ 24
Less Expense	\$596	\$691	\$578
Gain (Loss)	\$(10)	\$ 14	\$127

*Assessment minus bad debt – helps to normalize accounting differences from prior years
The gain in 2016 has been applied to the reserve fund and will be used to partially fund the pool project.

Financial Status Continued by Mark Morrissette, Treasurer

Historical Financials

Operating Expenses (\$000)

	2014	%	2015	%	2016	%
Operating Expenses	\$596	-6%	\$622	4%	\$578	-7%
Pool Building Demolition			\$ 69			
Total Expenses	\$596		\$691	16%	\$578	-16%

The table below shows the Fund Balance which is the accumulated gains and losses of the resort. This represents the overall financial stability of the resort. The balance was negative at the start of 2016.

Summary Balance sheet

December 31, 2016 (\$000)

Assets	
Cash	\$485
2017 Assessments Receivable	\$420
Pre-Paid Expenses	\$ 10
Total Assets	\$915
Liabilities	
Accounts Payable (Bills to be paid)	\$ 1
Accrued Expenses	\$ 8
Deferred Revenue	\$784
Total Liabilities	\$793
Fund Balance	\$122

As previously noted, the balance at the end of 2016 has been applied to the reserve fund and will be used to partially fund the pool project.

Here is a high-level summary of the budget for 2017:

2017 Budget

Operating Expenses	\$587,996*
<u>Other/Discretionary</u>	
Pool construction Cost	\$177,000
Amenities Operating Costs**	\$ 48,500
Reserve Expense/Improvements	\$ 21,000
Total Other/Discretionary	\$246,500
Total Budget	\$834,496

*2017 Budget includes Bad Debt Expenses which were NOT included in Historical Financials Operating Expenses.

** Amenities Operating Costs will be part of Operating Expenses in future years.

Insurance Review

In 2016 we completed a full review of hazard insurance, flood insurance, and fidelity bond. This led us to increase our hazard insurance coverage. An insurance review will be completed annually to ensure proper coverages.

Reserve Plan

Mark Morrissette, Treasurer

The Board engaged Advanced Reserve Solutions, Inc. to conduct a review of all internal and external facilities last summer. Based on the firm's report, the Board developed a 25-year Reserve Plan that is designed to keep the resort in good condition. It is a comprehensive plan that prioritizes repairs, maintenance, and replacement of all facilities while building cash balances for regular repairs and maintenance as well as for emergencies.

The detailed plan contains nearly 30 separate common-area line items, detailing specific projects, expected costs, and anticipated repair dates. A sample of line item tasks on the Reserve Plan include those listed below. Note that specifics are subject to change as conditions warrant.

- Repair parking areas: 2019 (\$45,000)
- Replace boilers: 2022 (\$100,000)
- Replace roofs: 2024 (\$80,000)
- Re-shingle buildings: 2032 and 2033 (\$350,000)
- Repair pool: 2037 (\$75,000)

The Reserve Plan also provides specific refurbishment and repair budgets for unit interiors. To address short-term concerns (but still allow reserve funds to begin to accumulate), the plan initially calls for a phase of minor repairs as follows:

- \$3,000 per unit
- Begin minor repairs in some units in 2017; complete all units by 2019
- Work on 7-8 units/year

Following the initial minor repair phase, the plan contemplates a continuous cycle of regular major refurbishments, and then minor repairs to all units. The major refurbishment plan is as follows:

- \$20,000 per unit (adjusted annually for inflation)
- Begin first major upgrades in 2021; complete all by 2027
- Complete 3-4 units/year
- Repeat major refurbishment cycle every 14 years

Between major refurbishment cycles, the plan allows for minor updates as follows:

- \$4,000 per unit (adjusted for inflation)
- Each unit scheduled for minor repairs 7 years after completion of major refurbishment
- Begin in 2028; complete by 2034

The 2017 Reserve assessment is based on the Reserve Plan. Based on following the plan, the board anticipates that fees can be kept relatively constant (inflation adjusted) without the need for special assessments, and achieve the objectives outlined above.

It is important note that the plan is not perfect. We have made compromises on the planned timing of some repairs to ensure sufficient reserve balances each year. Further, given the wide scope and the timing of needed repairs, the reserve balance does not increase significantly. Over the 25-year planning cycle, the forecasted reserve balance at the end of a year is rarely above \$150,000, and is frequently below \$50,000, which is not ideal. Increasing the number of paying shares will help to reduce fees and/or improve cash balances.

Facilities Improvements

Samantha Disotell, Resort Manager

Many improvements were made to the buildings and grounds in 2016. In-house staff performed some of the work, but contractors were used where special expertise was required.

Work on common areas and the grounds included:

- Renovated and painted lobby
- New carpet in lobby and second floor area outside bathrooms
- New room number signs
- Walkway pavers laid at main entrance w/ drainage
- Fenced-in pool area
- New resort sign w/landscaping and solar lights
- New signs for the office/registration building
- Stairs repaired/replaced from building A to building B
- New picnic tables and BBQ grills

Transportation improvements were:

- Used truck purchased to help with everyday tasks, trash runs, hardware runs and deliveries
- Van repaired/inspected

Improvements made to living units included:

- Front doors painted for units 16 through 24
- Drapes/window treatments re-installed in bedrooms
- Units deep cleaned
- Bathroom exhaust fans replaced (as needed)
- Appliances replaced (as needed)
- In-Room Guest Guide Books updated
- Furniture replaced (as needed)
- Queen mattresses replaced (as needed)



Pictures showing examples of some of the improvements were presented. They can be seen at the Owners Portal of the VRI website by clicking on **Owners Meeting Slides 2017** in the Newsletters & Notices section.

Capital improvements under consideration for 2017 include:

- Soft renovations to 7 units
- Drapes/window treatments
- Reserve projects /plumbing & electrical
- Bathroom exhaust fans replaced (as needed)
- Appliances replaced (as needed)
- Furniture & queen mattresses replaced (as needed)
- Deck repairs Building A
- Drainage for Building A & B

We will continue to perform repair and maintenance work throughout the resort season as needs arise.

Recreational Amenities / Pool

Cheryl Moore, Vice President of Facilities Planning

Work has begun to implement the Recreational Amenities Plan that was overwhelmingly approved by the owners last October. Prep work to restore the pool is underway, with principal construction efforts set to begin around April 1. The target date for opening the pool is July 8. However, this is subject to change based on weather conditions, availability of skilled labor, ferry schedule changes, and delivery of material.

The components of the recreational plan are as follows:

2017

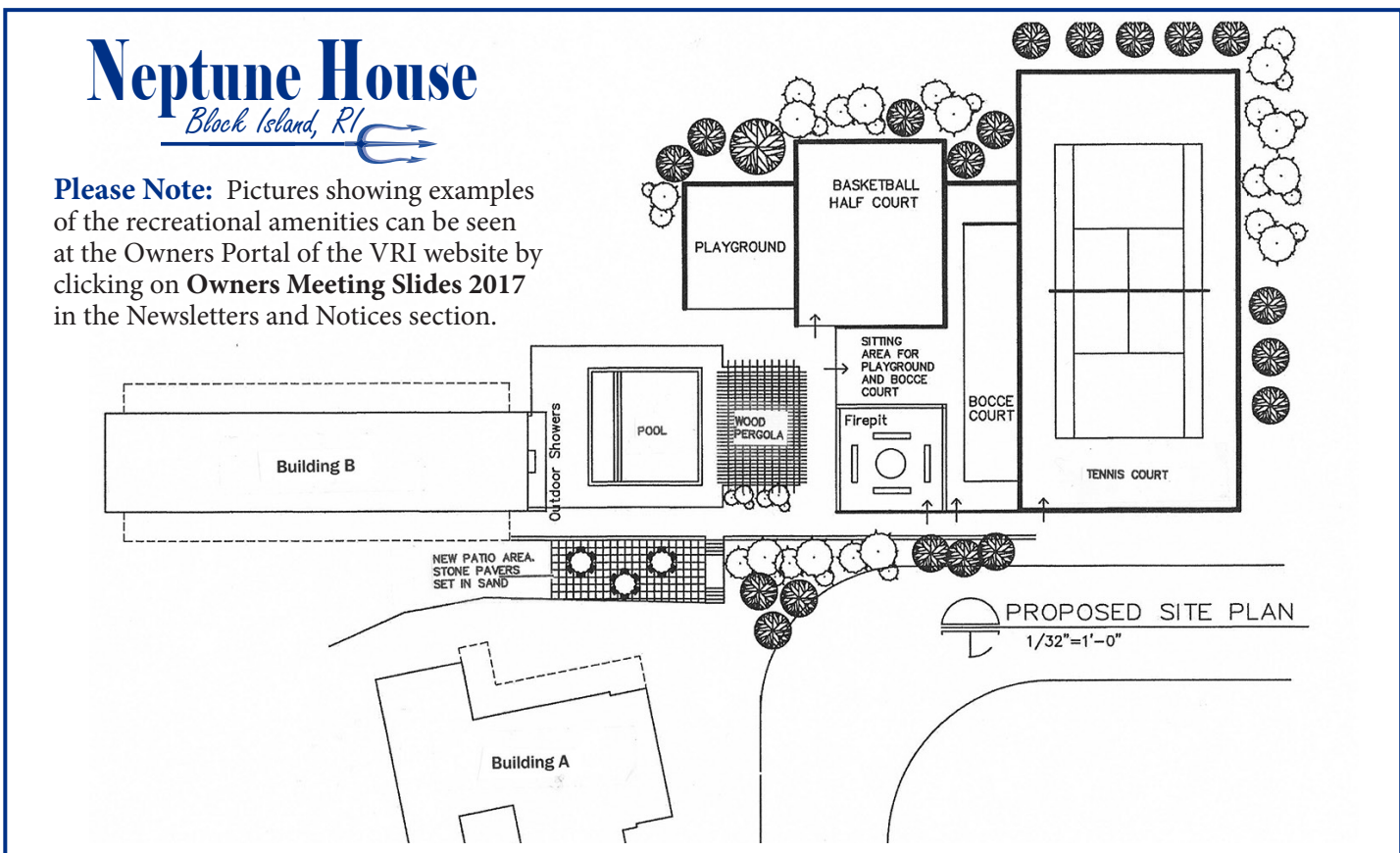
Pool upgraded to meet current health and safety codes; outdoor showers installed.
Main contractor: Hendricks Pools, Inc.

2018

Pool enhanced with enlarged apron and new 21' x 32' seating area with pergola

TBD based on the results of our sales & marketing efforts

Patio area constructed
Playground installed
Fire Pit installed
Basketball area constructed
Bocce court installed
Remaining tennis court refurbished



Key Milestones for the 2017 Pool Work

Milestone	Target Completion Date	Status
Signed Contract	January 5	✓
State and Town Approvals	April 1	
Demolition Work	April 15	
Pool Structure	May 12	
Utilities/Decking/Finishing	June 23	
Lockable Gate/Outdoor Showers	June 23	
Testing & Inspections	July 7	
Grand Opening	July 8 *	

* Subject to change based on weather conditions, availability of skilled labor, ferry schedule changes, and delivery of material.

Neptune House

Block Island, RI



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