



Neptune House

Block Island, RI

A blue trident icon, positioned to the right of the text 'Block Island, RI' and partially overlapping the wavy blue lines below.

September 2018

MESSAGE FROM THE BOARD OF DIRECTORS

Introduction

There has been a lot of activity in the past few months at Neptune House. We are pleased to provide this update on overall progress towards achieving a strong future for our resort.

As you know, we have been working on an ambitious Recreational Amenities Plan funded partly by a Recreational Amenities Fee in place for the years 2017-2019 and partly by maintenance fee revenue from the sales of shares owned by the Owners Association during the same period.

The idea was that when the outdoor heated pool was open and as additional recreational facilities were added, increased sales would result. The first and most critical step – Phase 1 of the project, construction of the outdoor pool – is now complete. Unfortunately, that step took much longer than planned, and work on other aspects of the Recreational Amenities Plan has yet to be undertaken. In addition, sales have not materialized to the extent that we had hoped.

In this article, we'll explain where things currently stand, what the immediate future portends, and how this could impact the fee structure of the resort.

Recreational Amenities – Pool

Phase 1 of the Recreational Amenities Plan was to construct an outdoor heated pool that would be open for the entire 30-week resort season. While Phase 1 was finally completed on August 15, numerous problems affected the project, causing delays and cost overruns.

There are two key reasons why the project took more than a year longer than expected: The Board underestimated the complexity of the project, and we underappreciated the unique business practices on Block Island. We provided more detail at the Owners Meeting in March 2018 and in the Newsletter sent out shortly afterwards. Since then, unfortunately, we experienced more of the same, resulting in delaying the opening until August.

Ultimately, the project ran more than 50% over budget (about \$100K). This was due primarily to low early cost estimates for some tasks and complications dealing with several contractors.

As we explained at the Owners Meeting and in the last newsletter, most of the cost overrun was covered by an operational surplus in 2017 and by the contingency in the Reserve Fund. However, some funds planned for Phase 2 (expansion of the pool deck and construction of a pergola) needed to be used to complete Phase 1.

Sales of Association-Owned Shares

Sales of the 100+ shares owned by the Owners Association in the 30-week resort season have fallen far short of what we had hoped to achieve. Our planning presumed that we would sell at least 10 shares in each of the years 2017-2019. The sales firm that we hired in 2017 had very limited success, and our new firm, Hello Vacay, has been slow to build momentum. More than halfway through the three-year period, we have sold only 5 new shares.

Maintenance fee revenue for the years 2017-2019 from the new sales is intended as the funding source for Phase 3 of the Recreational Amenities project. Phase 3 would encompass the construction of new amenities, potentially including a fire pit, playground, bocce court, half basketball court, refurbished tennis court, and/or new patio area, depending on available funding and owner preferences.

We will continue to work with Hello Vacay to aggressively market and sell the shares that the Owners Association owns, and to work with VRI to rent those shares that remain unsold. In the long term, more shares in the hands of individual paying owners will help us to control maintenance fees by allowing us to spread costs over a larger owner base than we would have otherwise.

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MESSAGE FROM THE BOARD OF DIRECTORS CONTINUED...

Revised Recreational Amenities Plan

In view of our experiences working on Phase 1 of the Recreational Amenities project during the past two years, and considering that our available funding for Phases 2 and 3 will be considerably less than initially hoped for, the Board feels that a prudent course of action going forward is to scale down the scope of future work. We have looked at various creative alternatives, and, based on feedback from owners who have seen the pool, we have established a revised plan that encompasses elements of Phases 2 and 3 that we can reasonably expect to be able to fund.

Instead of expanding the pool deck out to the tennis court, Phase 2 of the revised plan is to create a patio in the area between the deck and the tennis court, thereby providing a space where additional pool furniture can be situated. This area will be a little lower than the pool deck, but it will provide a good view into the pool area. It is expected to be much less expensive to construct than pouring a foundation and deck and extending the fence. The new Phase 2 also entails installing a fire pit and outdoor furniture on part of the patio.

Phase 3 of the revised plan includes demolishing one tennis court, resurfacing the remaining court, refurbishing or replacing the fence around the tennis court, and providing a level grassy surface where the first tennis court currently is. This area could potentially be used for playing kick ball, wiffle ball, cornhole, lawn bowling, croquet, badminton, or other sports that do not require special infrastructure.

We hope to have the patio area between the pool and tennis courts ready for use at the beginning of next season. Timing of the other work will depend on available funding, costs, owner preferences, and coordinating the schedules of the contractors doing the work.



Area for future Patio

Financial Future

The Board has begun long-term financial planning under the assumption of continued deed-backs from existing owners and limited sales of Association-owned inventory. To offset rising costs due to inflation, a small number

of net new shares in the hands of individual owners is needed each year. However, as our owner population ages, things are going in the opposite direction: Annual deed-backs and defaults are exceeding annual sales. Although the Recreational Amenities Fee will no longer be in place after 2019, maintenance fees would need to increase in 2020 if this trend continues. Note that fees in 2019 will remain the same as in 2017 and 2018, as the Board committed when the Recreational Amenities Plan was approved by vote of the owners in October 2016.

To help mitigate the situation, the Board is exploring creative ways to get revenue from Association-owned shares – the vast majority of which occur in May and October. Options include making those shares more financially attractive to prospective buyers, being more aggressive in the rental market, or depositing them with a vacation club that will guarantee a fixed annual payment.

Our financial modeling will allow us to evaluate various scenarios for different levels of individual ownership in future years. As industry trends emerge and we gain more insight into the effectiveness of marketing and sales techniques on Block Island, we will try to develop approaches to respond appropriately.

In the last few years, we have done a lot to improve the physical condition of the resort and to stabilize the financial situation. We will keep working hard to overcome the challenges that we face. With your support, the Neptune House will continue to provide a wonderful vacation experience for many years to come.

Summary

Here is a summary of key information and decisions:

- Phase 1 of the Recreational Amenities Plan (construction of an outdoor heated pool) is complete. The pool opened on August 15, 2018 – though unfortunately more than a year late and about \$100K over budget.
- Work on Phases 2 and 3 of the Recreational Amenities Plan (expansion of the pool deck and construction of additional amenities) has been scaled down to include elements from the original master plan that we can reasonably expect to be able to fund.
- Maintenance fees in 2019 will be the same as in 2017 and 2018.
- If recent trends in deed-backs, defaults, and sales continue, maintenance fees could increase in 2020, even though the Recreational Amenities Fee will no longer be in effect.
- The Board is working diligently to understand the long-term impacts of the trends that we are seeing, and to develop strategies to deal with situations that might unfold.
- With the continued support of our dedicated owners, the Neptune House will endure as a special vacation destination long into the future.

The Pool is Open

After a long and trying process, the pool construction project was completed in late July, and the pool opened on August 15 after receiving final approval from the Rhode Island Department of Health. The pool is heated and will remain open through the end of the resort season on November 10, 2018. It will re-open in 2019 when the resort opens on April 13 and stay open for the entire 30-week season.

The construction process was more difficult than we had expected at the outset, but the result is a beautiful facility that we can all be proud of. We appreciate your patience and support during the time that it took to get the work done, and we look forward to your feedback after seeing it and using it during the next year.

Pictures are posted on our website, www.neptunehouse.com.

Communications

Create an Owner Account

Having an owner account allows you to see your account balance, your last payment, and your upcoming reservations. You can also make payments by credit card. Additionally, you have access to policy documents, newsletters, financial reports, budgets, plans, minutes of Board meetings, and other documents pertaining to the resort.

Creating an account is something that you can do yourself on the VRI website (www.vriresorts.com). Before doing so, your email address must be on file with VRI and associated with each of your shares (unit/weeks).

If you have not previously provided your email address, please call 1 (866) 469-8222 or email nememberservices@vriresorts.com and ask to have it associated with all your shares.

To create an account, go to "Owners Portal" and click on "New Users." Enter your Email Address and select from the Property Code drop down, enter your Account Number which is of the form UUU-WW where UUU is the unit number padded with leading zeroes and WW is the week number, and then click on "Register" and create a password.

Access Minutes of Board Meetings

If you want to keep abreast of the activities of the Board of Directors on a monthly basis, please access the minutes of Board meetings on the VRI website (www.vriresorts.com).

Click on "Owners Portal," and then log in to your account. The minutes are in the "Documents & Forms" section.

Receive Email Updates

Even if you don't feel the need to check the website periodically to read minutes of Board meetings, having your email address on file will allow you to receive timely notices from the Board.

Email communications not only assure timeliness, but they cost the Owners Association nothing. If everyone were on email, it would be much cheaper and easier for the Board to share information.

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Visit us on
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If you're reading this online, please click on the Facebook logo to be directed to our page or search for Neptune House on Facebook.

Contact the Board of Directors

Questions, concerns, and comments may be sent to the Board via email addressed to board@neptunehouse.com. As fellow owners, we will strive to respond in a thoughtful and timely manner.

Foreclosure Auction on Delinquent Owners

A non-judicial foreclosure auction will take place in November to resolve delinquencies that have occurred over the past two years. Several summer weeks will be included. Details can be found in the flyer inserted in this newsletter.

Please help us make the auction successful by telling your relatives, friends, neighbors, and co-workers about it. Share copies of the flyer and forward the pdf file that you will receive in your email to your contact list.

This is a unique opportunity to expand and strengthen our ownership base while producing revenue that can be used to improve our resort. Please help by spreading the word.

Neptune House

Block Island, RI



c/o Vacation Resorts International
P.O. Box 399
Hyannis, MA 02601-0399

Contact Information

Neptune House

Resort Number (401) 466-2100
Fax (401) 466-5445
Website: www.neptunehouse.com

Still Need Assistance?

VRI Corporate Services (508) 771-3399
(800) 999-7140
VRI Fax (508) 775-6396

Resort Manager

Samantha Disotell (401) 466-2987
resortmanager@neptunehouse.com

Board of Directors

Email: board@neptunehouse.com

VRI Owner Services

Assessment Billing & Collection (800) 999-7140
Email: nemberservices@vriresorts.com
Monday - Friday 9:00 a.m. - 5:00 p.m. Eastern

Phil Totino, President
Cheryl Moore, Vice President of Facilities Planning
Mark Morrisette, Treasurer
Jeff Anliker
Doug Carnahan

VRI Reservations

General (800) 228-2968
Rentals, Vacation Tyme® (866) 469-8222
and Bonus Time
Website: www.vriresorts.com

Other Officers

Chris Lindgren, Secretary

Exchange Information

Interval International (800) 828-8200
Trading Places (800) 365-7617

Director of Resorts

Michael McManus
michael.mcmanus@vriresorts.com

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Feedback from Owners at the 2018 Annual Meeting

At the annual Owners Meeting in March, several owners asked questions or offered suggestions to the Board during the Q&A session. Below is a list of items that were noted, along with the Board's responses. In some cases, the responses have been revised since the Owners Meeting, based on new information.

At the meeting, owners also expressed appreciation for the immense amount of time that Board members and officers devote to the resort.

Recreational Amenities

1. Suggestion to look at pervious concrete for the expanded pool deck.
Response: *This option was under consideration until plans were changed to construct a patio with pavers instead of expanding the concrete deck.*
2. Question about whether a chairlift is required for the pool.
Response: *Yes, per the Americans with Disabilities Act, a chairlift was installed for the pool.*
3. Question about whether handicapped individuals can access the pool area.
Response: *Yes, through a four-foot wide entrance accessible via a walkway from Building B.*
4. Suggestion that if there is a public hearing on the pool deck expansion, the Board should ask owners to express their support by sending letters to the town.
Response: *Good idea. However, since plans have been changed to construct a patio instead, this will not be necessary.*
5. Suggestion to use umbrellas on the pool deck instead of building a pergola.
Response: *Because the pool will be open from mid-April to the first week of November, strong winds are a concern. Umbrellas can be blown around and damaged. A pergola would be designed to withstand high winds. However, due to cost concerns, the pergola has been eliminated from the revised Recreational Amenities Plan; umbrellas will be used when wind conditions allow.*
6. Question about whether the remaining tennis court would be resurfaced if Phase 3 is undertaken.
Response: *The revised Recreational Amenities Plan includes resurfacing the remaining tennis court. Whether this eventually happens will depend on available funds, cost, and overall owner preferences.*
7. Question about whether others have difficulties getting construction work done on Block Island.
Response: *Yes. There are many anecdotes to substantiate this fact.*

Sales & Marketing

1. Suggestion to put Association-owned shares for rent in VRBO and Airbnb.
Response: *We are advertising through VRI's rental program and on TripAdvisor and booking.com.*
2. Question about whether the resort will be advertised on social media.
Response: *VRI is working on making use of social media platforms.*
3. Question about how Hello Vacay will market shares.
Response: *Hello Vacay is contacting owners and guests who have stayed at the resort in recent years and is also marketing more broadly.*
4. Question about how prices for shares will be determined, and whether a price list will be available.
Response: *Hello Vacay sets the prices. There is not a list of prices distributed, but owners can call Hello Vacay for that information on a specific share.*
5. Question about whether marketing materials will be left in units.
Response: *A kiosk is set up in the lobby and marketing materials are available in the units.*

Finances

1. Question about how much money we have recovered from delinquent owners subject to the non-judicial foreclosure that took place in August 2016.
Response: *About \$16,000 in 2017 plus nearly \$11,000 so far in 2018.*
2. Question about what happens to money from foreclosures.
Response: *It is accounted for as revenue when received.*
3. Question about how much we pay VRI annually.
Response: *\$56,676 in 2018, with 3% annual increases for the next three years.*
4. Question about whether there have been any benefits from the wind farm.
Response: *Not so far, but we might see cost savings later.*

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Feedback from Owners at the 2018 Annual Meeting Continued...

5. Question about when maintenance fees will decrease, as it is hard to sell shares when the fees are approaching the cost of renting a house.
Response: *Fees will be flat in 2019 and, unfortunately because new sales have not materialized to the extent desired, fees could increase in 2020. The cost of renting a house is still much higher – around \$3,200 for 6 people/week and \$4,300 for 8 people/week during the summer season – and \$2,000/week during the off-season.*
6. Question about whether the resort has flood insurance.
Response: *No, although the Board has considered whether it is needed. The resort has a high elevation relative to the island generally.*
7. Question about accessing the Reserve Study.
Response: *The Reserve Study is available to be signed out at the front desk of the resort.*

Miscellaneous

1. Suggestion that the Board should reach out to owners for expertise and set up committees. Related question about how owners with skills such as gardening or painting could help the resort.
Response: *Good idea to leverage expertise of owners. This works both ways – as owners know what the Board is working on; if they have relevant expertise and time, they can contact the Board.*
2. Question about how guests will be screened for valid service animals.
Response: *The Service Animal policy is on the VRI web site. Individual owners who rent their units will need to tell prospective renters about the policy.*
3. Suggestion to designate an area on resort property for walking service dogs.
Response: *Good idea in theory, but further consideration is needed. We have had very few service dogs accompanying disabled owners.*
4. An owner commented that fishing has improved because the underwater structures supporting the wind turbines have attracted barnacles and other sea creatures.
Response: *Noted. Good news if that continues!*

Successful Audit

A public accounting firm hired by the Board recently completed an audit of our 2017 financial statements. This represents a tremendous milestone for the Neptune House. It is the first time that an audit has ever been conducted – and we passed with flying colors!

An audit involves a detailed testing of the completeness and accuracy of the financial accounts of a business. Successfully completing an audit requires thorough recordkeeping and an attention to detail by the staff throughout the year. All owners should be proud of this accomplishment and confident in the financial soundness of our resort. Going forward, we plan to audit the financial statements annually to ensure their accuracy and completeness.

Marketing & Advertising Help Needed

The Board of Directors is looking for volunteers with a background and experience in:

- sales, marketing, or advertising to develop a marketing strategy focused on building brand awareness of the Neptune House directed particularly at Millennials and Generation X; and/or
- graphic design to develop the artwork, ads, and posters to implement the marketing strategy.

If you have the passion, energy, and time and are interested or have questions, please contact Jeff Anliker at (413) 323-9988 / anliker@charter.net or Doug Carnahan at (617) 816-5220 / dmcarnahan@gmail.com.