

Neptune House

Block Island, RI

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MESSAGE FROM THE BOARD PRESIDENT

April 2019

Phil Totino, President

The Annual Meeting of the Neptune House Owners Association was held on March 30, 2019 at the Latitude 41° Restaurant and Tavern located at 105 Greenmanville Avenue in Mystic, CT. 70 owners attended.

After welcoming remarks, there was a brief update on the status of the initiatives comprising the Turnaround Plan established three years ago. The main goals are to improve the financial health and physical condition of the resort and to stabilize annual fees. Key points regarding the six initiatives are as follows:

1. **Management Company** – The Board renewed the contract with VRI for another three years, with 3% annual management fee increases through 2021.
2. **Collection Policy** – Results have been good in collecting from former owners whose shares were subject to the foreclosure auction held in August 2016. Additionally, the non-judicial foreclosure auction held in November 2018 was moderately successful. 14 of the 21 available shares were purchased. After accounting for legal, administrative, and advertising expenses, there was a modest gain. Almost all sales were to existing owners or to people who learned of the auction from existing owners. Given that several attractive summer weeks were included, it would have been ideal if more shares had been sold and prices had been higher, but the results are beneficial none the less. We'll be looking to our sales firm to sell the remaining shares. In the meantime, shares that are still unsold will be placed in our rental inventory.
3. **Proposition 30** – This was a successful one-time effort in 2016 to shorten our resort season to 30 weeks and implement a float week amnesty.
4. **Reserve Plan** – The 25-year reserve plan established in 2017 is on track.
5. **Recreational Amenities** – The pool opened on August 15, 2018. Phases 2 and 3 have been scaled back due to funding constraints and the difficulties of getting construction work done on Block Island.
6. **Sales & Marketing Program** – Results from our new sales firm, Hello Vacay, were encouraging enough to extend the contract through October 31, 2019. We also formed a Marketing Committee of Board members and other owners to develop strategies for attracting and retaining a new generation of owners.

Results of the election of two Board members to fill expiring terms are reported, along with general updates on the financial status of the resort and on improvements to the facilities. There are also articles about our sales efforts and marketing plans.

Owners made several valuable comments and suggestions during the Q&A session. The Board appreciates the feedback from our fellow owners, as it is helpful in informing our future decision-making process.

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 2019** in the Newsletters & Notices section. You must log into your account to view the slides.

Inside this Issue: Election of Directors ■ Recreational Amenities Project
Facility Improvements ■ Financial Update ■ Sales Efforts ■ Deedback Program ■ Marketing Committee

Election of Directors

Chris Lindgren, Secretary

Owners, without regard to Association-owned shares, cast votes either by proxy or in person at the meeting to elect two incumbent Directors for new 3-year terms, as follows:

Cheryl Moore	167 votes
Mark Morrissette	167 votes

The 3-year terms will expire in March 2022.

Congratulations to Cheryl and Mark. The future of the resort depends on continued owner interest in serving on the Board. The resort needs the skills and efforts of those owners who volunteer their time to set the course for the years ahead.

Recreational Amenities Project

Cheryl Moore, Vice President of Facilities Planning

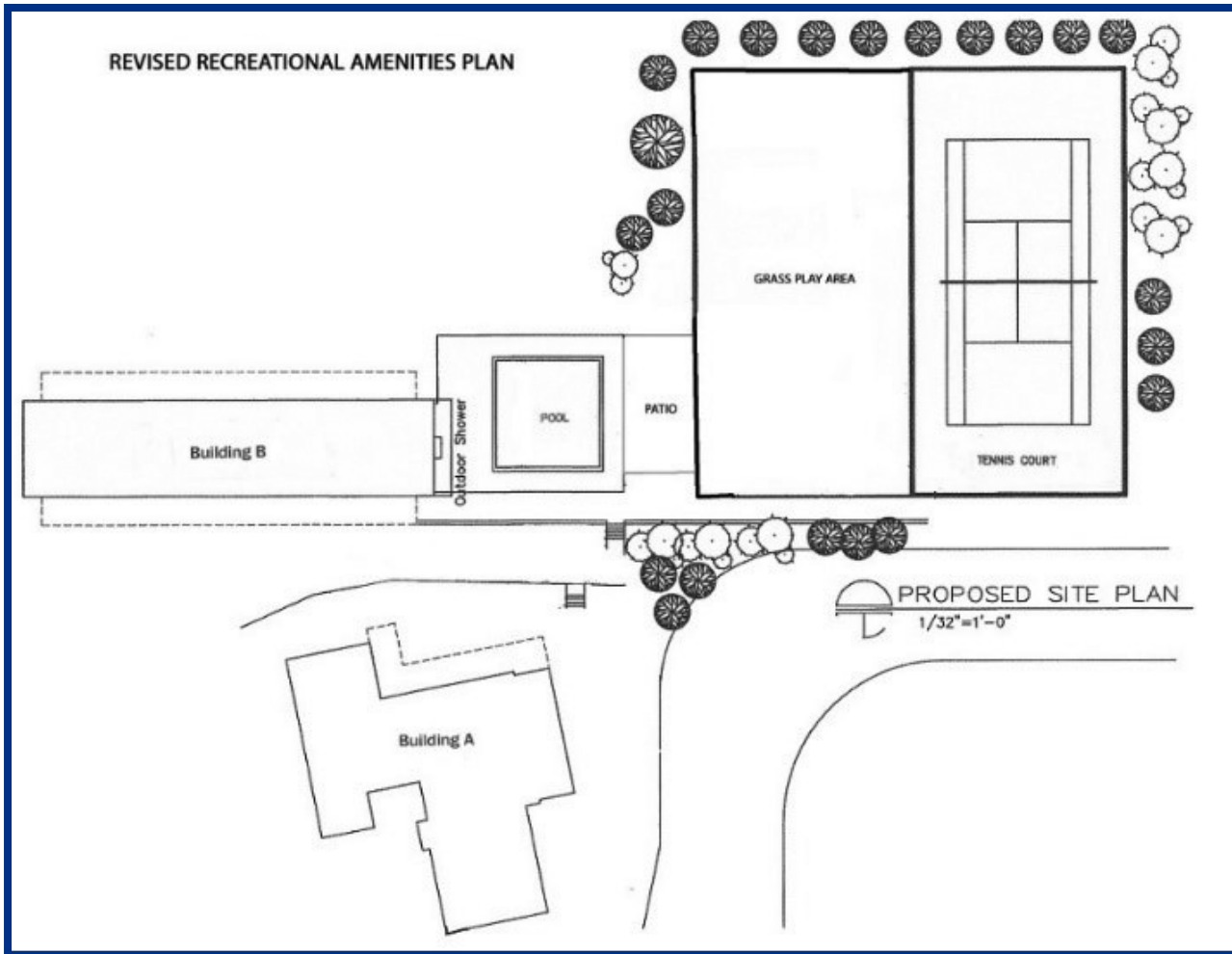
The outdoor heated pool opened on August 15, 2018. Construction took much longer than planned, but the goal of Phase 1 of the Recreational Amenities project was finally achieved. The completed project includes a handicap chairlift, outdoor shower, and new pool furniture. The pool is surrounded by a solid 6' cedar fence on the Connecticut Avenue side and a 6' black aluminum fence (wrought iron style) on the remaining two sides. There are two gates in the fence accessible via keypad entry code. A new walkway along the Building A side of the pool provides handicap access to the pool area.

Due to escalating costs and difficulties working with contractors, along with the fact that new sales of shares have fallen short of expectations, the Board scaled back the scope of Phases 2 and 3 to encompass elements 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. The new Phase 2 also entails installing a fire pit and outdoor furniture on part of the patio. The pergola that was in the original plan has been eliminated.

The Board has contracted with an off-island landscape and hardscape firm to construct the patio, with a target date of May 13. The patio will be made of permeable pavers, so approval from the town to increase the impervious area on the property is not necessary. There will be a short retaining wall near the tennis court fence. A gate into the pool area will be installed, and a step up to the pool deck will be included. A self-contained propane gas firepit will be positioned on the patio, and appropriate outdoor furniture will be purchased.

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 or other sports that do not require special infrastructure. Items from the original plan that have been eliminated include a playground, a bocce court, a half basketball court, and a seating area between buildings A and B. Timing of the work will depend on available funding,

To see pictures of the pool, pool furniture, outdoor shower, walkway and location of the patio and firepit, view the slides presented at the Owners Meeting. They are available through the Owners Portal of the VRI website by clicking on **Owners Meeting Slides 2019** in the Newsletters & Notices section. You must log into your account to view the slides.



Facility Improvements

Samantha Disotell, Resort Manager

Many improvements were made to the buildings and grounds in 2018. In-house staff performed some of the work, but contractors were used where special expertise was required.

Work on units and common areas included:

- Replaced concrete pad in back of Building B
- Repaved Building A driveway and parking areas
- Repaired retaining wall between Buildings A and B
- Created new flower gardens around the property
- Replaced fence behind Units 4/5/6 and included rail to unit 6
- Power washed decks, rails, and parts of Building B
- Stained wooden walkways on property
- Stained decks on Building B
- Stained bike racks in front of Building B
- Rebuilt access panel to Building A crawlspace
- Painted interior units in Building B
- Replaced door knobs, hinges, towel racks, and shower bars
- Installed new entry door for Unit 5
- Installed ceiling fans in vaulted stairwells of Units 8, 10 and 11
- Improved bathrooms in Units 10 and 12



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Facility Improvements Continued...

Samantha Disotell, Resort Manager

General maintenance work included:

- Updated In-Room Guest Guide Books
- Deep cleaned units
- Replaced bathroom exhaust fans in 12 units
- Replaced appliances (as needed)
- Replaced furniture (as needed)
- Replaced washer/dryer in Building A
- Repaired building used for employee housing



The following improvements are planned during 2019:

- Install stairs near tennis court going from Building A to new patio
- Re-install walkway in front of Building B near pool
- Create defined parking area in front of Building B
- Replace water heater in Building B
- Replace sliding glass doors in bedrooms of Units 18, 22 and 24
- Update kitchen cabinets in Units 11 and 18
- Replace kitchen windows in Units 18, 21 and 24
- Replace vanities in twin baths of Units 22, 23 and 24
- Install hairdryers in all bathrooms
- Perform additional exterior power washing and staining

We will continue to perform repair and maintenance work throughout the resort season as needs arise. Pictures of the new Building B concrete pad and the Building A driveway can be seen in the slide presentation accessible via the Owners Portal of the VRI website by clicking on **Owners Meeting Slides 2019** in the Newsletters & Notices section. You must log into your account to view the slides.

Financial Update

Mark Morrissette, Treasurer

Overview

2018 was a strong year for Neptune House core operations. Revenue came in ahead of plan and operating expenses came in on budget. Revenue benefited mostly from rental and foreclosure income.

Our 2019 budget is consistent with our overall 3-year plan. Reserves are on plan despite pool overages. Without stronger sales of shares owned by the Owners Association, we will be unable to reduce the overall assessment in 2020, even though the Recreational Amenities fee will no longer be in effect. We currently anticipate that the overall assessment (total maintenance fee charged to each share) will stay flat or increase slightly.

Insurance Review

In 2018, we completed our annual review of hazard insurance, flood insurance and fidelity bond. The 2019 budget includes updated, adequate coverage.

Foreclosure Review

A foreclosure auction was held on 21 shares in November 2018. Included were 13 summer shares. 14 shares including 12 summer shares were sold. The Owners Association realized \$17,500 in net revenue (sales less legal, administrative, and advertising expenses). An additional \$19,950 in 2019 maintenance fee revenue was collected.

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Financial Update Continued...

Mark Morrissette, Treasurer

Financial Detail

2018 Operations vs. Budget

Gain/Loss (\$000)

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$ 717	\$ 640	\$ 77
Operating Expenses	<u>640</u>	<u>641</u>	<u>1</u>
Gain (Loss)	\$ 77	\$ (1)	\$ 78

Operating profit for the year was \$77,000 due mostly to foreclosure and rental income. Expenses were essentially on plan.

2018 Reserves vs. Budget

Gain/Loss (\$000)

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$ 149	\$ 151	\$ (2)
Operating Expenses	<u>291</u>	<u>148</u>	<u>(143)</u>
Gain (Loss)	\$(142)	\$ 3	\$ (145)

Reserves spending includes the pool/amenities project and planned maintenance. Spending on Phase I of the pool project ran over budget (but is completed). Some planned 2019 maintenance was accelerated into 2018 when favorable pricing circumstances arose. As a result of these two factors, reserves spending was well above budget. However, overall our reserves are tracking to the 25-year master plan.

Consolidated Financials

Gain/Loss (\$000)

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Assessment	\$ 811	\$ 793	\$ 772
Plus Additional Revenue	24	32	94
Less Expenses	<u>708</u>	<u>777</u>	<u>931</u>
Gain (Loss)	\$ 127	\$ 48	\$ (65)

Year-over-year declining assessment revenue is a concern. The Association was able to absorb the 2018 losses (pool overages) because of the positive earnings in prior years.

Note that our first-ever audit (for the year 2017) was completed last year. We are planning to have year-end audits conducted every year.

The table below shows the balance sheet of the resort. The Fund Balance, which is an accounting term representing the difference between assets and liabilities, is a reasonable proxy for the overall financial stability of the resort. The Fund Balance decreased in 2018 due to completion of the pool project, though we anticipate the resort to stay on solid financial ground.

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Financial Update Continued...

Mark Morrissette, Treasurer

Summary Balance Sheet December 31, 2017 & 2018 (\$000)

	<u>2017</u>	<u>2018</u>
Assets		
Cash	\$580	\$446
Assessments Receivable for Upcoming Year	\$379	\$367
Pre-Paid Expenses	\$ 10	\$ 48
Total Assets	\$969	\$861
Liabilities		
Accounts Payable (Bills to be paid)	\$ 12	\$ 3
Accrued Expenses	\$ 8	\$ 12
Deferred Revenue	\$780	\$741
Total Liabilities	\$800	\$756
Fund Balance	\$169	\$105

2019 Budget

Operating Expenses	\$656,526
Other/Discretionary	
Rec Amenities Phase II Construction	\$ 83,200
Reserves/Improvements	\$ 62,904
Total Other/Discretionary	\$146,104
Total Budget	\$802,630

Maintenance Fees Unchanged from 2018 to 2019

Recreational Amenities Plan Review

Costs for Phase 1 (pool construction) ran considerably over budget. However, scaling back the work on Phase 2 will lead to lower costs than budgeted for that phase. The net result is that the total costs for Phases 1 and 2 is expected to be about \$139K over budget. The good news is that no new owner fees are needed to cover the shortfall because prior-year positive income and savings offset the higher costs.

Reserve Plan Review

Maintaining an adequate Reserve Fund is important to ensure the long-term viability of the Neptune House. It allows us to have stable maintenance fees without the need for periodic special assessments.

In 2016, we completed a detailed review of all facilities and we built a 25-year maintenance plan covering all aspects (interior and exterior) of the resort. The plan acknowledges the fact that we need to play catch-up on repairs, as well as plan for preventative maintenance.

In 2018, we continued the catch-up repairs in several units, as planned. In addition, we completed Phase I of the pool project, which is an expense of the Reserve Fund. We anticipate completing Phase II in 2019, as the bulk of the work is already under contract.

During 2019, from the Reserve Fund we plan to:

- Complete Recreational Amenities Phase II
- Continue catch-up repairs in living units
- Address the parking area in front of Building B
- Replace the water heater in Building B

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Financial Update Continued...

Mark Morrissette, Treasurer

As planned when we developed the 25-year reserve plan, there will be an increase in the Annual Reserve Assessment beginning in 2020 in order to maintain a prudent level of reserves.

Financial Outlook

The slow, steady decline in assessment revenue during the past few years is problematic. It is caused by the fact that defaults and deed-backs are exceeding new sales. So far, the annual shortfall has been offset by foreclosure and rental income much higher than budgeted. That income is not sustainable over the long term. A successful sales plan for the resort will be critical to success.

2019 is the last year that the Amenities Construction Fee is in effect. However, as noted above, there will be an increase in the Annual Reserve Assessment beginning in 2020. Additional operating income will be needed to offset declining levels of ownership.

At this point, we anticipate that the overall assessment (total maintenance fee charged to each share) will remain flat or have a small increase in 2020. The Board is exploring multiple ways to minimize any potential increase.

Sales Efforts

Michael McManus, Director of Resort Operations/VRI

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) generate revenue for the Owners Association by selling or renting shares held by the Owners Association. Sales ideas include searching for bulk sales of offseason inventory.

Individual Owner Resales - To assist owners in reselling their shares or deeding them back to the Owners Association, two years ago the Board developed a **Reseller's Handbook** that contains relevant ideas and resources. Updates and revisions were made this year to keep the information current. Please see the article entitled **Deedback Program** for more information.

Sales of Owners Association Inventory - In 2018 the Board contracted with Hello Vacay to market inventory owned by the Owners Association and to make Interval International's Club Interval Gold program available to existing owners. Results were modest, but sufficient progress was made that the Board extended the contract with the firm through October 31, 2019.

Four (4) people bought new shares. All were existing owners. The total maintenance fee revenue expected from all new sales in the years 2017-2019 is \$16,847. This is the amount earmarked for Phase 3 of the Recreational Amenities project.

At the end of 2018, the Owners Association still owned 100+ shares in the 30-week resort season. During the coming year, we will continue to work with Hello Vacay and try to leverage the Club Interval Gold program. Sales efforts will be extended beyond current owners, renters, and exchangers. We will also try to increase rental revenue via VRI marketing and other channels.

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.

Deedback Program

To assist owners in reselling their shares, two years ago the Board 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. Also included is a section about Interval International's Club Interval Gold program for consideration as an alternative to selling. An updated version of the *Reseller's Handbook* that reflects data and experiences from 2018 is now available.

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 it. Owners without internet access can call the resort to have a copy mailed to them.

Marketing Committee

Jeff Anliker

In September of last year, the Board set up a committee of owners to develop a marketing strategy to increase ownership and rentals of shoulder weeks by October 31, 2019. Members of the committee are:

- Jeff Anliker, Chairman
- Doug Carnahan
- Cheryl Moore
- Paul Weiner

For background, some statistics provided by the American Resort Development Association (ARDA) were presented regarding vacations taken by timeshare owners. Key point included:

- 32% bring children under 18
- 47% want help with the "booking" aspects of vacation planning
- 79% vacation in the U.S.
- 42% vacation at their home resort using weeks
- 20% vacation at their home resort using points

The table to the right describes the weekly distribution of Neptune House Owners Association (NHOA) Fixed Week inventory from May thru October, based on data as of September 19, 2018.

NHOA Fixed Inventory is almost exclusively concentrated in the shoulder seasons at the beginning and end of the resort's fixed week calendar.

Prime season inventory in July and August has completely sold out, as has almost all the inventory in late June and early September. NHOA Fixed Inventory includes no timeshares in July and August, only 1 timeshare in late June, and 2 timeshares in early September.

Monthly Distribution of NHOA Fixed Inventory					
MONTH	STU	1BD	2BD	Total	%
MAY	1	14	15	30	37%
JUN	1	3	0	4	5%
JUL	0	0	0	0	0%
AUG	0	0	0	0	0%
SEP	3	4	2	9	11%
OCT	5	20	13	38	47%
TOTAL	10	41	30	81	100%
	12%	51%	37%	100%	

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Marketing Committee Continued...

Jeff Anliker

In total, the 81 shares of NHOA Fixed Inventory currently represent 14% of timeshares during the entire fixed week calendar, meaning one of every seven fixed week timeshares generates no annual revenue from maintenance fees.

Attracting potential new owners to purchase shoulder weeks presents several challenges:

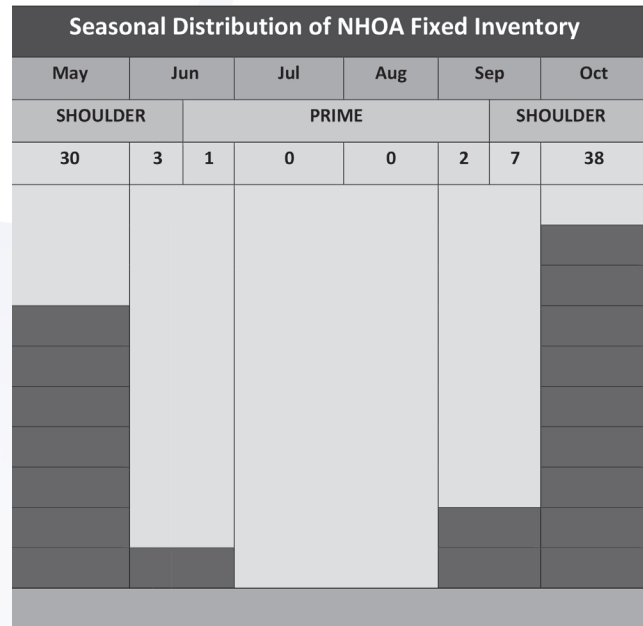
- Extra time and expense of travel to and from the Island
- Fewer restaurants and shops are open and Island events scheduled
- Cooler weather may reduce the attraction of beaches and pool usage
- The reality of school-age children reduces the ability of parents to come to the Island

However, there are advantages:

- Most outdoor recreation activities are fully accessible and less crowded
- The Island and resort atmosphere are more conducive to relaxation and reflection
- Resort staff has more time to fulfill the needs of resort guests

The key audience and demographics of first-time timeshare owners are:

- Millennials/Generation X (age 25-55)
- Married with kids
- Higher Income
- Within 3-4-hour drive
- Looking for good trading power for exchanges



The Board recently signed an agreement with Social Synergy Services (Tania Picard, Owner) to manage and maintain the Neptune House Facebook page, to post and monitor the Facebook page almost daily, and to create, manage, and maintain a Neptune House Instagram account. The Marketing Committee is currently reviewing proposals for website page improvements.

The Neptune House Facebook page can be accessed by establishing a Facebook profile (<https://www.facebook.com/r.php>) and searching for Neptune House or @NeptuneHouseResort, or by going to <https://www.facebook.com/NeptuneHouseResort/> and then “following” the page.

The Neptune House Instagram account can be accessed by establishing an Instagram account (<https://www.instagram.com>) and searching for neptunehousebi, or by going to <https://www.instagram.com/neptunehousebi/> and then “following” the page.

Possible future marketing activities include:

- Formatting the website for phone/tablet
- Increasing Social Media footprint
- YouTube
- Developing and maintaining a contact/email data base
- Purchasing targeted advertising

Other suggestions are welcome. For additional information or to provide feedback, contact Jeff Anliker at jeff.anliker@outlook.com or call 413-323-9988.

Neptune House

Block Island, RI



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Still Need Assistance?

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Mark Morrisette, Treasurer
Jeff Anliker
Doug Carnahan

VRI Reservations

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

Other Officers

Chris Lindgren, Secretary

Exchange Information

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

Director of Resorts

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