

THE KEYSTONE NEIGHBOURHOOD COMPANY

ANNUAL MEMBERS MEETING

July 2, 2004

I. Call the Meeting to Order

The Keystone Neighbourhood Company Annual Members' Meeting was called to order by Mr. Alex Iskenderian on Friday, July 2, 2004 at 3:10 p.m. at the Keystone Conference Center. Mr. Pell noted that there was a quorum present in person and by proxy. **These minutes are in draft form until reviewed and approved by Neighbourhood Company Members at the next meeting date which is noted on item VII below.**

Board Members Present Were:

Alex Iskenderian, President, At Large Director  
Roger McCarthy, Vice President, Resort Director  
Bill Pell, Secretary, At Large Residential Director  
Thomas Davidson, At Large Director  
Doug Sims, Ski Tip Residential Director  
John Boyd, River Run Residential Director  
Jim Crocker, At Large Commercial Director  
Tom Juliano, Lodge Director

Representing the Keystone Neighbourhood Company Were:

Keven Burnett, Executive Director  
Heidi Stenhammer, Office Manager  
Molly Speer, Operations Manager

For a list of Homeowners Present at the meeting, please contact the Neighbourhood Company office.

Others Present Were:

Paul Backes, McMahan & Associates  
Chris Love, Property Manager  
Craig Abramson, Property Manager  
Jeff Pennette, Property Manager  
Winston Elliott, Property Manager  
Victor Meza, Property Manager  
Carol Culbreth, Property Manager  
Cara Miller Property Manager

II. President's Address

Mr. Iskenderian took a brief moment to introduce Neighbourhood Company Executive Board members and employees. He noted that Mr. Keven Burnett, formerly of the Downtown Boise Association was selected as the new Executive Director and has outstanding qualifications for the position. He was responsible for operating the 60 block business improvement district in Boise, ID and prior to that had extensive experience in the ski industry and resort management.

II. President's Address (Cont.)

**Mission Statement**

It is the Neighbourhood Company's mission to make the Neighbourhoods at Keystone a premiere mountain community by maintaining a high quality environment and investing in facilities and events that will attract visitors and create a vibrant four-season community.

The mission statement is reviewed at every Board meeting to ensure that it remains relevant and is used as the foundation for decision making.

III. Approve Previous Meeting Minutes

A motion was made to approve the previous meeting minutes dated November 21, 2003, as presented. The motion was seconded and carried unanimously.

A motion was made to approve the previous meeting minutes dated February 25, 2004, as presented. The motion was seconded and carried unanimously.

IV. Financial Reports

**Audit and Year-End 2003**

Mr. Paul Backes of McMahan and Associates presented the 2003 audit. The firm has given the company a positive, unqualified audit opinion.

As of December 31, 2003 the Neighbourhood Company had a net income of \$523,838 of which the operating funds net income was \$388,495 due to increased resale activity. Additionally, there is \$1,588,889 in the three reserve funds.

In summary, the Neighbourhood Company is following the approved financial plan. Accounting controls and systems are good and investments are insured or have low risk. Expenditures are reasonable and relate to the Association's purpose. As always, the Association's financial future is largely dependent upon real estate activity. A full copy of the audit is available to Members through the Neighbourhood Company office.

**Vote on Audit Resolutions**

**RESOLVED**, that amounts collected by or paid to the Company for Capital Replacement purposes for the year ended December 31, 2003, shall be set aside for future major repairs and replacements and allocated to capital components as provided by the guidelines established by IRC Section 118 and Revenue Rulings 75-370 and 75-371. Such amounts shall be deposited into separate accounts. Any amounts so added to replacement funds shall be allocated to the various components at the discretion of the Executive Board.

This resolution passed with 2,208 votes in favor and 12 opposed.

**RESOLVED**, that excess membership income over membership expense collected by or paid to the Company for the year December 31, 2003, shall be applied against subsequent tax year membership income as provided by IRS Revenue Rulings 70-604.

This resolution passed with 2,208 votes in favor and 12 opposed.

IV. Financial Reports (Cont.)

**RESOLVED**, that \$250,000 of the \$388,495 year ended December 31, 2003 operating surplus be allocated to the Community Capital Reserve Fund with the balance of \$138,495 remaining in the operating account to cover a projected 2004 deficit.

This resolution passed with 2,186 votes in favor and 20 opposed.

V. Executive Director's Report

**Year-to-Date Financial Reports**

As of May 31, 2004, income was \$444,917 or 121% of the budgeted amount, expenses were \$851,122 or 111% of the budgeted amount and net income was negative \$406,205. There are 10 delinquent members related to the AREA billing totaling \$25,125 in Accounts Receivable.

Expense overages relate to legal fees due to the Fritz Alpine Bistro lawsuit and insurance premiums being significantly greater than budgeted. A discussion ensued regarding the Fritz lawsuit. Mr. Burnett explained that the Neighbourhood Company has an easement on the boardwalks of the buildings. If a tenant wants to utilize the space outside of their establishment that is not already included in their lease then the Neighbourhood Company will enter into a license agreement with the tenant allowing them to utilize the exterior space for business purposes. The Neighbourhood Company requires that all exterior improvements in the Neighbourhoods at Keystone be submitted to the Design Review Board (DRB) for approval prior to any alterations being made. Fritz installed flags on the building, placed a wood burning chiminea on their patio and constructed a grill enclosure without prior approval from the DRB. They neglected to follow the appropriate approval process and refused to remove the items.

The Executive Board determined that because Fritz would not acknowledge the authority of the DRB, which is one of the fundamental functions of the Neighbourhood Company, that legal recourse was necessary to uphold the standards in River Run and maintain a level of fairness to the other merchants who follow the proper procedures.

The Neighbourhood Company is actively seeking a settlement agreement with Fritz Alpine Bistro. However, as of the meeting date no agreement has been acknowledged or signed by the owners of Fritz Alpine Bistro.

**Reserve Funds Update**

The Capital Reserve and Replacement fund is projected to have a year-end balance of \$843,861 which includes \$250,000 in allocations and \$183,324 in expenses.

The Community Improvements Reserve Fund is projected to have a year-end balance of \$668,058 which includes zero dollars in allocations and \$53,500 in expenses.

The Community Facilities Reserve Fund is projected to have a year-end balance of \$462,659 which includes \$122,543 in allocations (which represents the required 10% of Annual Real Estate Assessments) and zero dollars in expenditures.

It was noted that the meeting notice mailing including plans for a performing arts complex. The Neighbourhood company currently does not have the funds necessary to construct such a facility however the Snake River Community Association, a non-profit

V. Executive Director's Report (Cont.)

organization, was created by the Neighbourhood Company as a means of communicating with community members and raising funds from the community at large to assist in the eventual construction of a community facility.

Mr. Sims commented that this issue has been raised in previous meetings. He stated that most buyers were told by their real estate agent that a community building would be a reality sooner rather than later. The Neighbourhood Company puts 10% of the Annual Real Estate Assessment into the Community Facilities fund which does not equate to significant annual growth. The Board made a conscious effort to place funds into the Community Improvements fund which currently has a balance of \$721,588. This fund allows for much greater flexibility than the Facilities fund. Once money is placed into the Facilities fund it can not be moved out of that fund into another fund. Money allocated into the Improvements fund can be moved out of that fund into facilities or capital at the discretion of the Board. So, the Board has the discretion to move the \$721,588 into the Facilities however at this time believes that at least 50% of the annual operating budget should be available in reserves.

It is important to note that the Neighbourhood Company is still in its infancy. The Beaver Creek Resort Association did not have their Vilar center until a very generous donor by the name of Alberto Vilar came along with the funds necessary to make the Vilar Center a reality. The Developer has given two parcels of land to the Neighbourhood Company for community facilities, Dercum Square and the Park Lane Pavilion site. The community had been surveyed, conceptual drawings have been created and the Snake River Community Association has been created to assist in raising funds.

**Board Discussion and Analysis**

The current three year forecast reflects deficits for 2004 - 2007. The Board is looking to present a zero based budget for 2005 however new development and strong resales is the key to making that happen. Allocations to the capital reserve fund will remain strong due to the age of Neighbourhood Company territory. Mr. Sims noted the three year forecast uses very conservative numbers for predicting RETA revenue and the actual revenue from RETA traditionally out paces the forecasted numbers.

**Current Operations**

Mr. Burnett noted that a significant amount of work has been taking place this spring including the replacement of boardwalks and pavers, curb and gutter repair, mortaring of Quaking Aspen Amphitheater stones and the addition of irrigation in landscaping beds at Settlers Creek. As the Neighbourhood Company territory continues to expand and additional homes and buildings are added the Neighbourhood Company will focus additional emphasis is placed towards those areas. It was noted that the developer should be responsible for the cost of the initial improvements including irrigation and landscaping and then the improved area should be turned over to the Neighbourhood Company.

**Summer Events Update**

The four major festivals will continue this summer and include the Celtic Festival held last month, Festa Italiana held in July, Bluegrass and Beer and Wine, Jazz and Art held in August. The Bavarian Beer Festival has been cancelled due to low attendance.

V. Executive Director's Report (Cont.)

The Park Lane Pavilion continues its third season with an outstanding line up of speakers, theater, NRO concerts and other concerts. Mr. Burnett was asked about the future plans for the PLP since expenses continue to be greater than revenue He stated that it is the goal to have the PLP become self supporting and he is looking to increasing sponsorship dollars and reservations with corporate groups and weddings to help make that a reality.

VI. New Business

**Sound System**

A concern over conflicting music in the events plaza was raised and it was noted that the Neighbourhood Company works with the merchants who have exterior music to coordinate play times so that their speakers are not playing at the same time the Neighbourhood Company sound system is on. Members and guests need to communicate with the Neighbourhood Company or guest services if music problems arise. River Run has a 10:00 p.m. noise ordinance.

**Holiday Decorations**

It was noted that greater emphasis should be placed this winter towards higher quality holiday decorations.

**Transportation**

Mr. Wood noted that approximately \$750,000 has been spent by the Neighbourhood Company to Keystone Resort for transportation services. It has recently been discovered that Keystone does not have a PUC license and therefore does not have the authority to collect money for transportation services. Mr. McCarthy commented that Vail does not currently have that license however it has applied for it and is anticipating that it will be forthcoming. They have been told that as long as a transportation contract was in place that there was no breach. Mr. Pell stated that the Board may consult with independent legal council to determine if a refund to the Neighbourhood Company is due.

**KNC Employees**

Mr. Boyd noted that the Board is looking into the possibility of creating a management contract with Vail Resorts whereby Neighbourhood Company employees would be employees of Vail Resorts and would then be leased to the Neighbourhood Company through a management contract. The Board is still in the very early stages of this research but initial reports indicate that it could mean a savings upwards of \$25,000 in health insurance and payroll services. Further information will be presented at the November meeting.

**Merchant Hours of Operation and Trash Storage**

It was noted that many merchants do not stay open until 8:00 p.m. which is required in their leases. Mr. Crocker noted that many of them can not afford to staff their establishments for that extended period of time. He does everything he can to communicate with them the required hours of operation but can't do much to enforce it or tenants may leave the village.

The issue of trash behind Kickapoo, Paisanos, Great Northern Tavern and Fritz Alpine

VI. New Business (Cont.)

Bistro was raised. It was noted that the restaurant spaces should have been designed with larger interior trash holding areas. The River Run Base Area crew usually does two to three trash pick ups per day and merchants are always able to call for special pick ups at any given time during the day. This issue will be reviewed with the operations crew to ensure that the most efficient system is being followed

VI. Set Next Meeting Date

The next meeting date was set for Friday, November 19, 2004 at 2:00 p.m. instead of the customary 3:00 p.m to allow additional time for open discussion and resort updates.

VII. Adjournment

The meeting was adjourned at 4:55 p.m.