

UNAPPROVED MEETING MINUTES

MINUTES TO BE APPROVED AT JULY 2, 2012 MEETING

The Keystone Neighbourhood Company
Annual Members' Meeting
November 18, 2011

I. Call the Meeting to Order

The Keystone Neighbourhood Company (KNC) Annual Members' Meeting was called to order at 2:10 p.m. by Mr. Buhler on Friday, November 18, 2011 in Warren Station.

Board Members Present Were:

John Buhler, President and Resort Director
Alex Iskenderian, Vice President and At Large Director
Doug Sims, Secretary and Ski Tip Residential Director
Robert Lepkowski, Residential Director
Brad Dempsey, Residential Director
Don McCoy, River Run Commercial Director
Paul Jeppson, Lodge Director
Jeff Steele, At Large Director
Donna Nolz, At Large Commercial Director

Homeowners Present Were:

Mike & Kit Schroeder, #8351	Ginger Boulton, #2241
Kevin Ong, #2274	Gail & Jane Allaman, #8470
George & Twila Snow, #8533	Nancy Sims, Ski Tip Lot 3
Theresa Modlich, #8325	Leo Hatrup, #8456
Jim Hutter, #8418	Dennis & Lynn Blum, #8728
Margaret & Archibald Smith, #8519	Patty Murray, #8531/8036
Barbara Schwarte, #8481	Karen Vogt, #2327
Dawn Gaynor, #2203	Ed Wood, #8734
John Boyd, #8811	Dan & Vicky Leffert, #8623
Cal Van Heukelom, #8818	Pam & Rocky Levkulich, #8393
George Meng, #8062	

Representing the Keystone Neighbourhood Company Were:

Mark Mathews, KNC Executive Director	Mindy Bothel, Business Manager
Maja Russer, Director of Events/Entertainment	Allissa LaFave, Events Coordinator
Lesley Johnson, Warren Station Manager	Erik Kraatz, Operations Manager
Ina Gillis, Landscape Manager	

Erika Krainz of Summit Management Resources was recording secretary.

II. Approval of Previous Meeting Minutes

A motion was made to approve the July 1, 2011 Special Members' Meeting minutes as presented. The motion was seconded and carried.

III. President's Report

Mr. Buhler introduced the Executive Board and reviewed the KNC Mission Statement.

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

IV. Executive Director's Report

A. *Introduction of Staff*

Mr. Mathews introduced the KNC staff.

B. *2011 Highlights*

Mr. Mathews reviewed 2011 highlights. Skier visits, lodging revenue and retail sales were up and it was a great snow year. Warren Station operated year-round with a number of great events. The summer numbers were some of the best in years. The KNC integrated the Kidtopia concept into the programming.

Warren Station is available for rental for owners and guests. The four major events this summer were the Blue Ribbon Bacon Tour, Wine and Jazz Festival, Bluegrass & Beer festival and Blues and Art festival.

Challenges included the declining real estate valuation with assessed values dropping 26% from 2009, Board member and KNC management changes and a decrease in the Real Estate Transfer Assessment (R.E.T.A.). Overall revenue decreased almost 11% for the year and expenses were up 5%. The Annual Real Estate Assessment (A.R.E.A.) and R.E.T.A. provide 71% of the total revenue. The A.R.E.A. valuations decreased 26% (\$385,000).

The KNC Board objective is to maintain the high quality environment and to continue to invest in the facilities. With that in mind, the Board and management are always looking at decreasing expenses without impacting service levels. This is especially evident in G&A expenses which went down almost 33% between 2009 and the budget for 2012.

The three different funds for Reserves are the Community Facilities Fund, the Community Capital Reserve Fund and the Community Improvement Fund. Funding per the Reserve Study should be at least \$650,000 annually.

C. *2011 Year-to-Date Financials*

Mr. Mathews reviewed the 2011 Year-End Projection:

1. Total Revenue – \$2,393,582 actual vs. \$2,684,264 budget (10.83% under budget).
2. Total Operating Expenses – \$2,577,051 actual vs. \$2,466,183 budget (4.52% over budget).

3. Total Operating Income (Loss) – (\$183,469) actual loss vs. \$218,081 budgeted net income.

D. 2011 Capital Projects

The 2011 Capital Projects are projected to cost a total of \$245,661 against a budget of \$372,741 (34.09% under budget). Some projects that were originally scheduled in 2011 were not completed and will be rolled into next year's budget.

The projected year-end balances in the capital funds are:

1. Capital Reserve – \$2,870,723
 2. Community Improvements Fund – \$1,444,031
 3. Facilities Fund – \$487,605
- ** Fund balances may be adjusted during 2011 yearend audit**

E. 2012 Operating Budget

Mr. Mathews reviewed the 2011 year-end projections against the proposed 2012 Operating Budget:

1. Total Revenue – \$2,393,582 projected year-end vs. \$2,355,656 for 2012 Budget
2. Total Expenses – \$2,577,051 projected year-end vs. \$2,222,187 for 2012 Budget
3. Reserve Allocation – \$136,516 projected year-end vs. \$132,471 for 2012 Budget
4. Capital Expenditures- \$245,661 projected year-end vs. \$318,500 for 2012 Budget

All expense categories were reduced in anticipation of lower revenues.

Projected 2012 Capital Expenditures include:

1. Office/Event Equipment and Supplies – \$20,000
2. Community Pool – \$25,000
3. Roads, Walkways, Boardwalks – \$80,000
4. Common Elements Maintenance – \$143,500
5. Improvements (Warren Station/Office) – \$50,000
6. Total – \$318,500

Ms. Murray asked if there were any pool improvements this summer. Mr. Mathews said the spa heater, two pumps and sand filters were replaced and the snowmelt system was repaired. Ms. Murray commented that the A.R.E.A. around the pool and hot tub was often icy. Mr. Mathews explained that the snowmelt system shuts off automatically in very cold temperatures. It may be necessary to close the pool temporarily when there are very low temperatures as a safety precaution.

An owner asked if the roads in the Ski Tip neighbourhood would be seal coated. Mr. Mathews said it had not been done in the past but the Board is considering it.

Mr. Blum asked if the KNC could operate with a 14% budget decrease. Mr. Mathews said that was the goal. Mr. Blum asked if the 57% subsidy for Warren Station would continue. Mr. Mathews responded that the original plan projected a subsidy for at least three years. The goal is to increase revenues to offset expenses and the \$90,000 annual

depreciation. Mr. Blum requested an explanation of the Board travel expense. Mr. Matthews said out of state Board members were compensated for some of their travel expenses to attend Board meetings.

V. Ballot Items

A. *Determination of Quorum*

Ms. Bothel confirmed that there was a quorum.

B. *2012 Operating Budget*

Ballots were tallied for the 2012 Operating Budget and the budget was ratified.

VI. Long Term Financial Outlook

Mr. Buhler said the past few years have been extremely difficult due to the slowing of the real estate market. Funding to construct Warren Station was provided by the KNC, not borrowed from a bank, and the Board has a good business model for a recession. The Board charged Mr. Mathews with hiring an outside consultant to review the KNC, to look at other entities similar to KNC to see how they are faring in this environment and to identify options for keeping the KNC strong during the downturn.

Mr. Buhler thanked Mr. Straight and Mr. Mills for their service on the Board. Mr. Sims thanked Mr. Dempsey and Mr. Lepkowski for joining the Board.

A new Reserve Study was completed at the end of 2009. The Study recommended increasing the Reserve contribution from \$350,000 to \$650,000. Three Board members reviewed the recommendation and felt \$650,000 may be slightly high but not that far off.

R.E.T.A. and A.R.E.A. provide 71% of the KNC revenue. The other 29% comes from the sales and recreation assessments, events and Warren Station. The projection through 2017 indicates that if the current programs are maintained and if assessed values continue to drop, there will be an operating loss even before the Reserves are funded, which the Board feels is unacceptable.

Budget cutbacks included reducing General Operating Expenses by over \$117,000, reducing the summer festivals from four to two and reducing labor by four full time employees.

The Board and management have concluded that the KNC cannot cut its way to prosperity. Simply reducing operating expenses is not enough. The KNC should look at alternative financial structures for future health. There is not currently a crisis, but it is just prudent financial management.

The KNC Action Plan is to research alternative revenue sources, to evaluate further operating cost reductions and to investigate other methods for defining A.R.E.A. and R.E.T.A. assessments.

The Board will communicate regularly with members, solicit ideas and suggestions from members, identify options to consider by the July 2012 member meeting and present a proposed structure by the November 2012 member meeting.

Owners were encouraged to help by emailing suggestions to kncoutlook@gmail.com by the end of January 2012 and to attend the member meeting in July 2012.

VII. Member Questions and Comments

Mr. Wood suggested better utilization of the existing facilities and expanding the successful events such as the summer theater offerings.

Mr. Blum asked if there might be options for radical changes for funding the KNC once Vail Resorts is phased out in 2015 such as changing the taxing authority. Mr. Buhler said these types of ideas would be looked at with the outside consultant. Mr. Sims commented that he had never heard of any Vail Resorts restrictions regarding what the KNC can do.

Ms. Blum asked if there were templates for the transition that could be incorporated. Mr. Lepkowski responded that this would be explored.

Mr. Leffert asked the Board to challenge the underlying mission of the KNC and to look at how broad of a mission the KNC can take on.

Mr. Hutter suggested thinking “outside the box” and considering attractions such as a “pay for view” Christmas light display.

Mr. Sims anticipated that the real estate market would not turn around until at least 2015 and possible not until 2017.

VIII. Director of Events and Entertainment

An events calendar was included in the meeting packet.

IX. Set Next Meeting Date

The next KNC Members Meeting will be July 2, 2012 at 2:00 p.m. at Warren Station.

X. Adjournment

Mr. Wood made a motion to adjourn at 3:31 p.m.