

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS
ANTLERS AT VAIL ASSOCIATION
Saturday, December 5, 2020**

Catherine Michela, President of the Board, called the meeting to order at 9:03 am. Other Board members present were Susan Hagy Humphrey, Scott Chapman, Jeff Brundage, Buzz Dow (appointed to finish the 2-year term of Jim Taylor) Joe Forish and Lori Radcliffe. Also in attendance were Owner Cynthia Mable; General Manager Magda King; Controller Chris Ratzlaff; Assistant General Manager Kim Rediker; Revenue Manager Ryan Kelsey; Consultant Rob LeVine; Mike Jenkins of McMahan & Associates.

Minutes

The minutes of the Thursday, October 15, 2020 meeting were reviewed. Upon a proper motion and second, the minutes were unanimously approved as presented.

Audit Report

The audit report was presented by Mike Jenkins of McMahan & Associates. The audit opinion is unmodified/clean, the highest level of assurance that CPAs can give on an audit. The auditors reviewed the 2019-2020 financial report and found good liquidity at the end of 2020 with assets of approximately \$1.993 million. Due to the nature of how the renovation of Project 2020 was accounted, it was viewed as an expense in the replacement fund rather than a fixed asset with depreciated improvements of common elements. Total rental program revenues were less than expected due to the Pandemic impact on Vail and the Antlers rental program revenues. However all significant expenses were also kept below budget. Both accounts ended the year with a deficit, however, the operating fund ended the year less than \$10,000 behind budget. In addition, forgiveness of the PPP loan in the 2020-2021 fiscal year will result in additional operating revenue of \$295,000.

The Board letter outlines the non-financial elements of the audit. In addition, per normal process in the Audit, Mike Jenkins highlighted some areas/opportunities for improvement. He noted that of utmost importance is what is NOT in the letter – that each year McMahan & Associates has seen items drop off the list as suggested improvements are addressed. The comments in this year's letter are either already being addressed or there is a plan to implement changes to resolve questions or opportunities. Mr. Jenkins reports to the Board that Management is deemed to be conservative, consistent, and compliant.

Two questions from the Board were addressed and clarified by management, regarding the balance sheet (e.g., the first regarding a note receivable and the second regarding employee rent deduction). Other suggested process modifications that Mr. Jenkins addressed included: checks made out to cash (now greatly reduced); more detailed personnel files which are in a good state now that an external vendor (Zenefits) has been hired; a supplies inventory system (now being formalized). The Board requested that Magda King issue a letter of response to the McMahan & Associates Board letter each year, prior to the Antlers Board Audit Report meeting so that there is a record for the Board to review, providing additional transparency of process improvements. The Board also requested a follow up report back to the Board of actions taken once completed. Upon a proper motion & second, the audit was approved unanimously as presented.

Financial Report – 2019/2020 & 2020/2021

September – November current rental management income is running higher than 50% “expected” budget. Most expenses have been held below the 50% expected budget, except wages which are tied to occupancy. Although Insurance expense is a normal risk item, a \$400 credit per person was received because of no significant claims due to Covid. The Board requested finalized end-of-year financials once completed and for a current 3-month YTD report (Sep-Dec). The BOD inquired about the actual loss at the end of last year of \$156,000, as the forecast loss had projected to be \$80,000. The difference was primarily due to the change to the HR vendor software now being able to report accrual of vacation time expense, accounting for about \$55,000 of the difference, plus a few unexpected invoices.

Ryan Kelsey presented information on reservations. In the summer months (May – August) we made 64% of original budget, which was set pre-pandemic. In September and October, we exceeded the 2020-2021 80% “best” budget. In winter, the Antlers is forecasting doing well in November, December, and April, however, January, February and March are not booking in the same way that they have over the past 7 years. Additional volatility is being documented, due to shorter booking times and cancellations closer to arrival dates. Growth within the month is increasing. The market is much different than in past years, with guests desiring more reservation flexibility and the absence of international guests (normally comprising 25-30% of winter guests).

Antlers 2019 Elevator/Lobby Debrief Report

In September 2020, the BOD committed to developing a full Debrief Report on Project 2019, in order to document the management process, financial planning, construction planning and timeline that the Antlers used, resulting in Project 2020 being brought in on time and on target, but with a project variance of \$980,000. After final auditing adjustments were made in October and November, that report was submitted at the December BOD Meeting by Antlers management, and is attached to these Minutes. For overall clarity, this summary is provided in the Minutes.

Magda King provided the General Manager’s summary in the Debrief Study, outlining the critical needs and goals behind the project, as agreed by Antlers Management and the Board of Directors, as well as the Ownership, primarily for guest safety but also for longer term property development. Although it was felt by Management and Owners, guests and visitors that success was achieved in addressing the most critical needs of elevator safety & reliability as well as need for more lobby and office space, it was also the conclusion that adequate real-time communication processes were not in place to communicate the changing Project cost variances and management controls.

The significant variance between original cost estimate (\$4.8M) provided by Hyder Construction in Nov of 2017 (upon which the Assessment [\$4.0M] to the Owners was based) and the final gross maximum guaranteed price (\$5.9M) in June of 2019 was noted as a significant variance in July of 2019 when the GMGP had to be approved by the BOD President, Catherine Michela. At that time, the Board President expressed serious concern about this variance to the Project Team

However, the Antlers Project Managers stated that.... with the healthy contingency built into the Project cost (5%/or \$250,000), the projection of around \$1.0M in forecast net revenue from the sale of Unit 500 and other cost cutting and barter strategies for construction worker housing, applying normal expected end of year rental revenue surplus (\$100 -\$200K) and \$100-300K reserve funds, Antlers management

expressed reasonable confidence that the variance could be reduced to a much smaller manageable amount, with less significant impact.

A set of factors unfortunately impacted that reduction. While the Project Team was successful in bringing in almost \$750,000 in net revenue from the construction/sale of Unit 500, that was less than the net revenue forecast. Moreover, project contingency was used up, due to unexpected technical construction issues and cost premiums (even with using a strategy of financial credits for worker housing) to avoid delay, including soil stability and water control. Then, additionally, Covid-19 hit Vail, dramatically decreasing normal end of year rental revenues, when the plan was to apply an expected \$200,000 operating surplus.

In evaluating all of these events, Antlers Management and the BOD felt there were inadequate real-time communication strategies in place to assist in more real-time financial monitoring and reporting on the Project.

Moreover, in reviewing the Debrief documents, BOD members felt that the Board was not aware at the time of approval of the Hyder GMP figure, by the Board President, Catherine Michela, of the magnitude of the difference, even though Management and the BOD fully expected that cost estimates would go up over the 2 years it took to go from initial estimate to final price. Although there was no ability to debate the final GMP figure with Hyder, because the project was already underway, they also felt that the entire Board should have been looped into those decisions and perhaps could have helped with decisions on different financing options at that time rather than after project completion. As it turned out, the Project itself was actually well managed and came in within 1% of the final GMP. The central issue was the escalation of prices for the Project requirements over the 2-year approval process from initial cost estimate to final price.

For any projects going forward, the Board suggested several measures be considered, including (1) applying an initial additional percentage to any assessment (based on initial estimate) to address potential cost variances; (2) that any project should have a % variance approval that can that can automatically be approved by the Board President and General Manager but would require subsequent re-approval by the Board if the final cost is going to be above that pre-approved % variance. This would give the Board President and Management the authority to make decisions without being constrained, but significant material changes to cost will require entire board approval;(3) periodic construction finance meetings, (in addition to the weekly construction activity meetings which were held and to which two Board members were assigned to be special meeting attendees), as it was not clear to the Board that financials were not discussed at these meetings.

With a current loan in place to cover the project cost variance, the terms give Antlers Management and the Board one year until Dec 2021 to a decide on how best to retire the debt.

The Board has decided to currently conserve cash during the Covid-impacted winter season, even with a healthy reserve account of about \$360,000, because it is felt that cash on hand is necessary due to the volatility of rental activity and revenue.

Debt repayment options have been thoroughly researched and could include one or a combination of options, including refinancing the loan and/or extending the term of the loan; use of capital reserve funds,

mortgaging of units 101 and/or 102; sale of units 101/or102 or even assessment, although the majority of Owners initially surveyed in October were reluctant to use that strategy.

Magda King said that the appropriate time to move forward with a decision on this may be June, to first have a full accounting of the results of the winter rental season and associated revenue. . If it is possible to decide before June, that would be the preference, but it is of utmost importance to prepare a strategy for repayment. Appropriate timing to make the decision will be revisited at the end of March 2021 by Antlers Management and the Board via a brief Board call. Magda King will make a recommendation to the Board at that time to either initiate making the decision or deferring to the June Board Meeting. The Antlers has also applied for an Economic Injury Loan, with information on whether or not we received that loan by June, which would significantly factor in. The Board may also consider revisiting the final recommended options with the ownership to see their preference on debt repayment – perhaps two options of (a) another assessment or (b) financed loan, after application of any available operating and/or reserve funds.

It is noted by Magda King that there is nothing else in the Reserve Study that needs immediate attention within the next five years.

Next Meeting Date

The next (virtual) meeting date for the Board of Directors is set as June 26, 2021 via Zoom. An interim status update on financial operations is scheduled to be provided on Wednesday, March 24th via virtual call.

Other Business

Joe Forish has sold his Antlers unit and therefore this will be his last meeting as a member of the Board of Directors. The Board expressed their sincere gratitude to Joe Forish for his years of service to the Antlers at Vail Board of Directors, and Joe Forish expressed his thanks and appreciation to the Board and the Antlers team.

There being no further business before the Board, upon a proper motion, second, and unanimous vote, the meeting was adjourned at 11:20 am.