

Native Sun Resort
Minutes of 2020 Budget Meeting
Thursday – December 5, 2019 @ 1 PM

The annual Budget Meeting of the Board of Directors of The Native Sun Resort was held on Thursday, December 5, 2019 at The Native Sun, 1950 S. Ocean Blvd., Lauderdale-By-The-Sea, Florida.

Call to Order. The meeting was called to order at 1:03 pm by Michael Ohr, President.

Roll Call. Michael Ohr introduced Steve Davis, Esq., Native Sun’s corporate attorney, and then requested the Board of Directors and General Manager to introduce themselves. Along with brief introductory remarks, the following were present:

- Michael Ohr, President
- Peter Cohen, Secretary
- Ralph Marcus, Treasurer
- Steve Ginsburg, Director
- Tom Jurcisin, Director
- Anita Pearce, General Manager

Proof of Mailing. Michael Ohr reported that we have the Proof of Mailing for this meeting.

Presentation of the 2020 Budget. Michael Ohr said everyone will be given an opportunity to ask questions after the budget is presented. He then requested that when recognized, each speaker give their name and unit week number for identification purposes in the event they need to be contacted with an answer not available today and would like everyone to limit questions to 3 minutes. Mr. Ohr reminded everyone that this is a budget meeting, and questions should be limited to the budget. He then turned the meeting over to the Treasurer, Ralph Marcus, for presentation of the 2020 Budget.

Ralph Marcus stated that the annual budget that is presented and approved at this meeting will take effect January 1, 2020. He reminded everyone that the payment schedule for dues, starting in 2020, is changing as we announced a year ago. The prior due date was mid-March, but because the resort cannot run without any revenue coming in during January and February, dues are now due and payable in the month of January. The annual billing notices that will be prepared and go out to owners immediately following this meeting will clearly state the new due date, and the Board wants to be sure that everyone in attendance at this meeting is aware of the change in due dates.

Ralph went on to state that the budget process results in the document presented, the 2020 Annual Budget, which is in the format used to submit the resort’s budget to the State of Florida in compliance with requirements of the Florida Statutes governing condominiums and timeshares, explaining further that the format presents expenses and revenues line by line and category by category as is required to be sent to the State of Florida. He explained that the budget procedure the resort uses on an annual basis goes through all of the expenses for the year, determines which

ones are non-recurring, separates those from normal, routine operating expenses and then looks at the reserves to see how much is there, how much needs to be funded, and what our spending plan for reserves is on an annual basis. The Board, with Anita Pearce's help, undertook that process and electronically shared a number of thoughts, ideas, schedules and expense reports.

Ralph Marcus shared some history about the finances of the resort, explaining that the resort's income is predicated upon payments from the owners and rental income. In 2019, the Native Sun corporation took over the processing of all rentals, and all of those duties are now performed in-house, managed by resort employees. He explained that the internal controls in place have been instituted and strengthened by Anita Pearce, who has a very strong background and credentials in accounting, and there is a lot of Board oversight of the process on an ongoing basis. He reported that rental income is a good part of the resort's financial revenue.

Ralph went on to explain that the annual dues paid by owners per unit week are an attempt to fund the day-to-day operations of the resort, as well as to fund future repairs and replacements which are generally prepared in a reserve study or 5-year plan. That plan identifies everything that's on the property and in the units that will need to be repaired and/or replaced, and it outlines how long it should last, what the replacement cost will be, and how much money should be in the reserves account in order to have sufficient monies when needed. Ralph Marcus stated that he has been doing that reserve study for about 14 years and it is fairly accurate. He explained that it is a guideline, estimating how much money in the operating budget needs to be funded to the reserves each year, and that's a big part of the resort's operating budget. The reserve funding in the 2020 budget is \$250,884 (See Page 2 of the Budget).

Ralph Marcus explained that the budget process continues by calculating how much revenue needs to come in, and then determining which projects need to be done and if the Board wants to do certain projects. He said this Board has been focused on visioning about the future of the resort, and many discussions have been held regarding the resort's 5-year plan and which items need to be included in our financial future to maintain the building properly. That plan, together with the reserve study, determines how the reserves are funded, and the approximate \$251,000 included in the budget for reserves is based on a specifically determined number. He went on to state that as was contained in the notice that was mailed to all owners, the 2020 budget contains a \$40 per unit week increase over the 2019 budget, which is about a 7% increase in every expense category of the budget. He explained that we made a comparative analysis of the other timeshare resorts in the area, as we do every year, and that analysis showed that in most instances our annual dues are lower than our competitors, providing a good value for what we offer right on the beach.

Ralph Marcus then went through each category of the budget providing comparisons between the 2019 budget lines and the increases/decreases in the 2020 budget lines:

- Administrative Expenses increased about \$8,000, largely due to expenses included for foreclosures to deal with delinquent unit owners that have been on the books for years. He explained that the resort is working with our attorney, Steven Davis, to address these units in the most economical way.

- Utility Expenses increased about \$5,000, mostly due to water and cable
- Maintenance and Building Repairs decreased \$20,000, representing a budgeting adjustment and reallocation of certain items from this category to reserves
- Maid and Cleaning Expenses increased about \$10,000 to include all maids' payroll in-house, eliminating use of outside contractors for additional help, and to provide for raises
- Grounds Expenses increased about \$18,000, partly due to use of an outside service for lawn care, which frees up our maintenance technicians and should result in overall savings
- Taxes and Insurance increased about \$17,000, mostly due to insurance premiums which are based on our building appraisal
- Reserve Funding increased about \$40,000, part of which relates to the reallocation of maintenance expenses discussed previously

Ralph Marcus acknowledged the efforts of Anita Pearce, who with the help of Christina Rodriguez and Debra Rachlen, have worked together to clean up the resort's accounting and financial processes to assist the CPA with better reporting and to assist the Board in their oversight process.

Ralph Marcus made a motion to adopt the 2020 Budget with the unit week maintenance fee of \$625 per unit per year. The motion was seconded by Michael Ohr. Discussion was then held on the motion.

- Jens Justesen, owner of 10 weeks, requested that next year's budget be presented with the comparison shown for prior year, which was duly noted.
- Richard Reid, owner of weeks 16, 17 and 48, requested a presentation of projected expenses to year-end, and asked if owners could expect a 7% increase every year. A lengthy discussion followed, during which Ralph Marcus responded that the 7% increase is from both operating and reserve increases, and there should not be a 7% increase every year from the operating portion. Further discussion followed regarding future plans for large improvements, including sliding doors, mattresses and other large projects. Michael Ohr made reference to the needed structural repairs mentioned in the budget letter, stating that we have begun discussions about how best to make those repairs which could include closing the resort for a month.
- Joe Murphy, owner of 104, 302 and 203, inquired if reserve funds were used in 2019 to pay for the sliding doors. Ralph Marcus responded that the cost of the sliding door project first became quantified during 2019, enabling the Board to project costs forward for the remaining floors, and the remainder of this project is now part of the resort's reserve funding planning.
- Sophie Serafin, owner of 406-18,19 requested to know what is included in the \$36,000 for landscaping, which seemed high to her. Anita Pearce responded that the price includes 5 sections of landscape improvements, both front and back areas. A lengthy discussion followed regarding the need for improvement of the resort's curb appeal and the need to identify and address some aging landscaping from both appearance and safety standpoints. Sophie also inquired about the inclusion of re-marcing the swimming pool, since she recalls it was re-marced in 2011. Ralph Marcus said we are near the 8 to 10-year life expectancy

of the pool now, but some premature aging of the surface is the result of poor maintenance practices over the years.

- Carolee Heller, *owner of 6 weeks in fall and spring*, inquired if the mattresses would be new (yes) and super high which is difficult for an aging population (they will be standard mattresses and box springs). Ms. Heller further asked what the Native Sun's appraisal is for tax purposes. Ralph Marcus responded that the resort's assessed value for taxes by Broward County is \$2,998,900, which is not the replacement cost appraisal value used for insurance purposes. Anita Pearce added that the 2020 tax bill totals \$58,000 this year, an increase of \$2,000 over last year, which means each unit week's tax bill for 2020 should be the same or a very slight increase over last year.
- Jens Justesen (*previous speaker*) asked what the Board has done to mitigate the \$40 per week increase, i.e., projects divided into phases or postponed. Michael Ohr responded that there were many items that were tabled this year, such as converting the sauna to bathrooms (\$40,000), and signage for the front wall of the building (\$20,000). Peter Cohen concurred, adding that the Board has already worked through the mitigation process by tabling those projects and others, making difficult decisions throughout the budget process.
- Al Christie, *owner of 402*, said postponing things only costs you more in the long run as prices increase, and he thinks the Board is doing a great job.
- Brenda Krzywicki, *owner of 405*, commented that the amount of Bad Debt Expense is only 3% of revenue but knows there are a lot of delinquent owners, and asked how many weeks are delinquent and how many weeks the Native Sun owns. Ralph Marcus responded that there are 142 unit owners that have not paid their 2019 payment(s), the value of which has not yet been fully calculated yet in terms of a percentage, but on an annual basis the resort typically collects about 92% to 93% of the dues budget. He went on to say that the 3% calculation Brenda has made against maintenance dues revenue is basically half of what's needed, but hopes that the resort will clean up the bad debt with new staff and a different approach to collections from the Board than has been in the past. He added that increasing the Bad Debt Expense line would have increased the \$625 annual dues even higher. Brenda then inquired about the visible crack in the front tower.

In answer to Brenda's question, Ralph Marcus then reported that the Board was mandated by the owners at a previous annual meeting to conduct a 5-year study and hire an engineer. He stated that the process is now ongoing and we are beginning to receive the reports, with the preliminary reports indicating that we are behind schedule on façade restoration. As the steel rebar inside of the concrete catwalks and balconies ages and rusts, it expands and cracks the concrete causing structural defects. He reported that the resort has already had to undertake an emergency repair of one of the 4th floor balconies for this very reason. He went on to report that the reports received indicate that the seawall will not require rebuilding but there are some small areas in need of repair. Ralph further reported that the resort needs to start getting bids for the work outlined in the structural engineers' report, some of which could be scheduled during maintenance weeks when half of the building is vacant, or alternatively, the Board is considering making the building completely vacant while all of the jackhammering is ongoing since it would be very unpleasant to stay at the resort during that time.

Ralph went on to state that the resort has not yet engaged engineers for electrical and plumbing reports, but the cost of those studies is included in the reserve expenses for 2020. He reported that the resort will next be receiving an electrical engineer's report since there are old panels that need replacement, followed by a report on the plumbing system. The electrical engineer's report will include the condition of the resort's sanitary lift station located behind the laundry room. With reports in hand for the façade, electrical, plumbing and seawall needs, the Board can properly prepare for needed repairs. He added that the roof was replaced after Hurricane Wilma, and is maintained annually with no apparent issues. Ralph concluded by stating that the Board will share that information with the owners once there is a plan in place to discuss.

Michael Ohr then stated that the Board is looking at options for funding these large expenditures, whether it be taking out a loan, increasing annual dues, or issuing a one-time special assessment. It is unclear at this early stage what course of action will prove best for the resort, but the Board is examining all options. Peter Cohen added that coincidentally, the State of Florida requires our resort to obtain a 40-year recertification in the year 2020, under which 100% of the defects listed in the engineer's study must be repaired and inspected within a timeframe or the building cannot continue to be occupied.

Al Christie (*previous speaker*) asked when the resort will be able to accept payments online. He was told that online payments are not available at this time through an online portal, but annual dues can be paid by credit card (for an additional fee) or through the owner's bank with online banking.

Richard Reid (*previous speaker*) asked a follow-up question about the amount of delinquencies as compared to the amount budgeted for income (potential income). A lengthy discussion followed during which Ralph Marcus responded that historically the resort will only collect 92% or 93% of potential income,; however, the budget only includes about half of what the bad debt expense will be since we have implemented a stronger collections and foreclosure policy and have engaged the services of a new realtor who is generating sales, replacing delinquent owners with new owners who will be paying.

Linda Smith (*owner of 107-37*) requested a copy of the realtor's report of sales activity to date, and Anita Pearce will provide that to her.

Kim Marcus (*owner of 102-14 through 17, and 107-15*) asked if there is a delinquency report showing the total amount due over the years that has not been paid, and how much of that is expected to be collected. Ralph Marcus responded that there is a report, but it includes maintenance weeks units and unit-weeks owned by the Native Sun, He further stated that this report needs some cleaning up since the resort has not ever written off any delinquencies and shows an inaccurate total due of at least \$800,000, but he is working on a summary version of that report for the Board's use in handling collections. Michael Ohr added that the amount of delinquencies is increasing annually, and the Board decided to go forward with foreclosures on units that can be resold by our realtor. Peter Cohen added that the Board is taking a much more aggressive approach to collections than has

ever been done in the past. Kim Marcus then asked for the number of units owned by the Native Sun, which is up to 24 units now, with potential foreclosures on another 24 units.

Brenda Krzywicki (*previous speaker*) asked if we call unit owners on either side of a Native Sun unit to market our inventory, and also how we prioritize whose unit gets rented first if there's a Native Sun unit and an owner's unit up for the same week. Ralph Marcus stated that when units are purchased, they are selected by a willing buyer for a week and floor that they are interested in, and the only competition is if it's the same size unit on the same floor. The entire For Sale List is available to everyone on the website and at the Front Desk, and future plans include an area on the website for owners that will alert current owners of units available in the week before or after theirs. With respect to our in-house rentals, Anita Pearce and her new staff has implemented transparent processes that are documented and accountable, so there is no question as to who rented a unit, who owns the unit, when it was rented, what the details of the transaction are, with all of the transactions clearly in writing and documented with review by the Board.

A lively discussion followed regarding rental rates, minimum number of days rented and that all owners will be treated equally. It was stated that the procedure for renting a unit starts by filling out the Rental Listing Agreement which is in the rental package on the owner's section of the website. Discussion was also held regarding rental income, with Michael Ohr informing all present that the Native Sun is on target to meet and exceed the 2019 budget for rental income of \$110,000.

Patrice Guerin (*owner, seven weeks*) stated that he stays here and also rents some units, so he wants to make sure the resort gets him a good price for his rental, or he will just find a renter in Canada to come and stay in his weeks. Michael Ohr said that we might be able to use Booking.Com to rent some of our units during slower, off-season months, which we could do by increasing the rental cost by the 15% that they charge.

Brenda Krzywicki (*former speaker*) asked to verify that the Native Sun is no longer paying Armada Properties. Ralph Marcus responded that the resort used to pay for Armada's overhead expenses (\$700 per month) as well as pay them 3% of gross rentals, but all payments have now stopped which allows the resort to keep a greater portion of the rentals. Brenda further asked if owners get any discount on rentals at the resort if they want to extend their stay by renting an empty unit owned by the Native Sun, to which Ralph responded that all rental negotiations are done through the owner of the unit.

Christian Lavoie (*105-51, 52*) reported that insurance savings from installation of the new sliding doors will be significant (as much as 50%) once the entire building is completed.

Treasurer Ralph Marcus called the question on the floor. Upon unanimous vote, the 2020 Budget passed and is now duly adopted. Treasurer Ralph Marcus told Anita Pearce she is now authorized to send it on to the State.

Director Steve Ginsburg commented that the Native Sun is truly a gem, and wants all of the owners to know that this Board works very hard for the owners, caring about their safety and their happiness. He further added that Anita Pearce is one of the most competent managers he has met, especially when it comes to numbers. He added that he is pleased to be associated with the entire Board.

Jens Justesen (*previous speaker*) asked for the comparisons of annual dues with other area timeshares, which were:

Windjammer	\$770	(25% rental fee)
Costa Del Sol	\$858	
Driftwood	\$580	

Attorney Steven Davis added that he the Native Sun is the best of the best, since he represents some associations where the owners get only about 25% of the gross rental, so getting 75% of the rental is just incredible. Most other associations also have rental restrictions that prevent them from renting out their units, so they lose tremendous amounts of money every month. He concluded by stating that he hopes everyone realizes just how good they have it at the Native Sun.

Brief discussion followed, recapping items on a wide range of topics from the meeting.

There being no further business, and upon motion duly made and seconded, the meeting was adjourned at 3:06 pm.

Respectfully submitted,

Anita J. Pearce, General Manager
The Native Sun Resort Condominium Association, Inc.