

Cabin Condominium at Loch Lyme Lodge Frequently Asked Questions — Summer 2021

Sometimes it is easier to understand complicated subjects when the information is broken up into bite sized pieces. This document addresses everything covered in the handouts titled **Overview** and **Own a Cabin at Loch Lyme Lodge: Plan and Financial Projections**, but we have organized the information as answers to the questions we are asked most often – thus Frequently Asked Questions.

All references we make to tables in this FAQ refer to our Overview or Plan and Financial Projections documents. We are also happy to show you the underlying spreadsheets and answer any questions you may have. And of course, if you are considering becoming a cabin owner, you should read “Becoming a Pinnacle Member” on the PinnacleProject.info website.

1 What is the plan and what are you doing?

Pinnacle Project, LLC is creating a condominium composed initially of the 19 cabins and land around those cabins and associated buildings on the “Lodge side” of our property on Route 10.

#2 How do you calculate the cost of a cabin?

The total out-of-pocket cost today for a cabin owner ranges from \$116,000 to \$256,000. There are five parts to an owner’s total out-of-pocket cost for a cabin:

- The “footprint” price, based on the cabin’s size, location, footprint, rental history, etc.
- A Pinnacle Member capital contribution (\$21K).
- A Cabin Member capital contribution (in addition to Pinnacle Capital contribution) (\$30K).
- An Initial Condominium Assessment (\$18K per room plus \$6K per cabin), which reflects costs to improve infrastructure and barn and allows us to distribute cost of infrastructure improvement fairly between cabins.
- An estimate for improvements to make the cabin comfortable in three seasons. (\$40K)

The budget for improvements (\$40K in our illustrations) is the amount we project a Cabin Member will spend to improve their cabin. We used ballpark estimates from local builders and our recent experience making improvements to three cabins. Cabin Owner’s actual expense will vary depending on how extensive the renovations are, the level of quality, and whether the cabin will be upgraded for use in three seasons or four. We anticipate the cabin owner will want to do this themselves, but we can manage the renovation on the owner’s behalf.

#3 Give me an example: What will a cabin cost?

The tables in our **Plan and Financial Projections** show details for each cabin. Using Sprucewood cabin as an example: The sale price is \$30,400. The Pinnacle Capital Contribution is \$21,000 and the Cabin Condo Capital Contribution is \$30,000. The assessment for common infrastructure is \$42,000. The suggested budget to make the cabin comfortable in three seasons is \$40,000. Therefore, the total out-of-pocket cost would be \$163,400.

#4 Will the cabin prices change?

Pinnacle reserves the right to revise the purchase price for cabins.

#5 Who Owns the Cabin? Is this a Time Share?

Cabin are units in a Loch Lyme Lodge condominium. Cabin Owners own their cabin and may sell it to any current or new Pinnacle member. It is not a time share; it is your cabin.

#6 Is this a good use of my money?

We see the Cabin Condos at Loch Lyme Lodge as an attractive alternative to buying a private cabin on a pond. Not only do you get the lovely lake and facilities, but the Lodge takes care of opening and closing cabins, maintaining the grounds, and renting the cabins, which will generate a small income (as compared with the expenses of owning and maintaining a private cabin).

We also believe that the improvements Pinnacle will be making to infrastructure and owners will make to their cabins will lead to an immediate appreciation in cabin value.

#7 How will money from cabin sales be used?

Money from the cabin sales - Pinnacle and Cabin member capital contributions, the Condo Assessment, and the "footprint price" - will be allocated to various expenses. Elected Pinnacle Managers make the final decisions on these, but will use this rough priority order:

- Infrastructure - burying utilities, septic (includes a septic field), electric, water, which taken together make it possible for owners to make their cabin into a three (or four) season cabin
- Moving the barn to a solid foundation and upgrading it, so it can be used in at least three seasons, increase our income, and generate some of our own electricity from roof installed solar panels
- Operating expenses, such as vendor payables and property tax.
- Repay debts incurred in the acquisition of the Loch Lyme Lodge property.

We project the sale of all cabins will bring in approximately \$2.6M. Infrastructure and facility improvements will cost roughly \$1.5M, leaving \$1.1M to cover operating expenses and repay some of the acquisition loans. These improvements, when complete, should mean your cabin will have a higher resale value.

#8 What are the obligations of the hospitality business?

The innkeepers and staff hired by Post Pond Lodge, LLC will continue to manage the hospitality business, just as we are doing now. That means managing all rentals, liability and property insurance, maintaining the grounds, and opening and closing cabins each year as required. The Lodge will be responsible for ordinary repairs to items subject to ordinary wear and tear, such as ripped screens and touch-up painting. The annual assessment covers these costs.

#9 What are Cabin Member obligations?

Cabin Members have very few responsibilities. They must upgrade their cabin to be comfortable in three seasons to extend our operational months through “leaf peeper” season in October. In addition, they must pay the Annual Assessment for their cabin (but see Question #12 below). They need to participate in cabin owner’s association and Pinnacle meetings (usually once each year). They are welcome to participate in workdays, but do not have to. Some cabin members will need to stand for election to serve on the Cabin Condo Association and some (sometimes the same persons) will serve as Managers for Pinnacle Project.

Although the innkeepers/Post Pond Lodge will take care of repairing normal rental wear and tear, because Cabin Members own their entire cabin – interior and exterior - Cabin Owners will be responsible for more substantial improvements to their cabin.

Finally, all Pinnacle Members get a K-1 tax form detailing the profit/loss of the Pinnacle Project.

#10 How do cabin revenue and expenses work?

Cabin Owners receive a share of their cabin’s earnings each year. The hospitality business will assess cabin owners for their share of the costs to maintain the property and run the business. That assessment will be offset by the cabin’s actual revenue.

#11 How do we compute a Cabin Member’s Share of Earnings?

Each year, Cabin Members receive a portion of their cabin’s revenue. These are the key factors:

- Cabin Revenue – the total rental revenue generated by a cabin during the year
- Cabin Assessment – the cabin’s share of annual expense to run the hospitality business
- Cabin Earnings – the difference between the Cabin Revenue and the Cabin Assessment
- Owner’s Share of Earnings – 75% of the Cabin Earnings
- Owner’s Use of the cabin – this subtracts from the Owner’s Share
- Pinnacle Member Discount (\$500) offsets some of the Owner’s Use

At the end of each year, Pinnacle will give owners a statement showing Cabin Revenue, Cabin Assessment, Cabin Earnings (Cabin Revenue less Cabin Assessment), the Owner’s Use, and a check for the result.

Our calculations show that, even with an owner using a week or two in the high season, they will receive a modest check at the end of the year.

#12 Give me an example: how much will I receive at the end of a year?

Using Sprucewood cabin as an example: in a Base Year, it generates \$23,031 of cabin revenue, with an annual assessment of \$14,774. The Cabin Earnings (difference between the two) is \$8,257, and the Owner’s Share (75%) is \$6,193. Use of the cabin for one week (\$1,380) subtracts from that Owner’s share, but is offset by the Pinnacle discount. In the end, the Owner receives a check at the end of the season for \$5,313. See Parts Two and Three of the **Plan and Financial Projections** document for more details about how this works.

#13 – How do you calculate the annual assessment for a cabin?

The assessment for a cabin is based its historical rental revenue before improvements, as a percentage of the total cabin revenue for the business. This percentage is fixed to avoid penalizing cabin owners after they improve their cabins. Assessment percentages range from 2.63% to 6.0%.

Cabin Members share in the cost of running the cabin portion of our hospitality business, which includes housekeeping, grounds, innkeeper compensation, property tax for the common areas, insurance, improvements and repairs to the common areas, additions to capital reserves, and other expenses. We do not include restaurant food expenses in the cabin assessment.

In recent years it has cost about \$330K to run the business. We project our costs for a longer season will be closer to \$390K.

#14 How can I budget for expenses?

The annual Cabin Assessment is not due in advance; it will be deducted from the cabin revenue when we compute the Cabin Earnings at year end. The annual statement will also include our best estimate, based on the upcoming year's budget for hospitality business expenses.

#15 Will there ever be a shortfall?

Although we cannot guarantee it, we believe the increased revenue generated by the improved cabins and the longer season will cover each cabin's annual assessment, even under the "Bad Year" assumption.

There will be a transitional period, between the purchase date and the time cabin improvements and infrastructure and barn renovation are complete. During that time, a cabin's revenue may not have increased enough to exceed its assessment. For the first two years after the barn is moved, if the Cabin Revenue is less than the Cabin Assessment, then Pinnacle will not ask for additional money.

Our budget also includes a capital reserves fund, and we will be paying for insurance, so if a tree falls on a cabin, we can fix it immediately and not wait for an owner to make the repairs. For all these reasons we do not anticipate any extraordinary assessment. However, our operating agreements does provide for assessments to be made if agreed upon by 80% of the members. If you do not have the money for the assessment, your capital contribution will be reduced to cover the assessment.

#16 What if all the cabins don't sell?

Unsold cabins will remain in the rental pool and will continue to generate income for the hospitality business.

#17 How can I use my Member Discount?

The Pinnacle member discount of 80% applied to any charge owners make at the Lodge – restaurant, the Lodge “store”, or lodging, capped at \$500 per year. This is true whether the charges are for your own use or for family or friends or even yourself to stay in another cabin.

#18 What are the limits on my use of my cabin?

To ensure that everyone will be able to enjoy their cabin, the Cabin Condo Association will use our innkeeper’s current policies as a guide to establish rules covering quiet time, cabin use, etc. Pinnacle, working with cabin condo association, will publish design standards that preserve the rustic look of the cabins and Lodge when making improvements and becoming more energy efficient.

Because wedding parties expect exclusive access to the entire hospitality business property, including all cabins, the beach, and (when it is renovated), the barn, on wedding weekends cabins will not be available to cabin owners. Our “Better Year” projections assume that we will have 12 weddings in a year (of the roughly 20 shoulder season weekends). We also assume we might have up to ten one- or two-day (mid-week) retreats (which would not necessarily require exclusive access to the hospitality business parts of the property).

Note that we only host weddings in the shoulder season, May and early June and September until Thanksgiving. We do not expect to host events every shoulder season weekend. We may decide to set one or two shoulder season weekends aside for owners and members – blocking them off from wedding reservations.

Note also that we will keep access to the pond for Pinnacle members, even when weddings have been scheduled.

#19 Can I sell my Cabin?

Cabin Members may sell their cabin on the open market, although the buyer must be (or become) a Pinnacle member. As with all new Pinnacle members, Pinnacle management will be involved in meeting and approving the potential buyer.

In our sale illustration, (Table Four in the Plan and Financial Projections), we assume cabin values will appreciate 10% immediately as a result of the infrastructure improvements in combination with the cabin owner’s own upgrades to their cabin. Those improvements will allow us to charge higher rental rates. We also assume a 1% per year appreciation in the cabin’s value. We believe these estimates are conservative.

#20 Timing for the Cabin Condominium

We received final town zoning approval for the cabin condominium in the summer of 2019. We are submitting final cabin condo documents to the NH AG’s office now. We are scheduling the first phase of infrastructure work for this fall and next spring. With regard to paying for the work, we may simply use the money we generate from cabin sales, or we may approach a bank

and request financing for necessary infrastructure improvements (buried septic, water, electricity). All cabin deposits are held in escrow until the managers approve the spending plan.

#21 What is the Pinnacle Project?

The Pinnacle Project, LLC is a New Hampshire limited liability company. It currently has 17 members (people), who own 24 membership units (some people own two). Members elect managers to make decisions for Pinnacle. It has a wholly owned subsidiary, Post Pond Lodge, LLC that runs the hospitality business and employs the innkeepers and staff. When guests rent cabins, they are contracting with Post Pond Lodge. Post Pond leases the property from Loch Lyme Lodge, Inc.

Loch Lyme Lodge, Inc. is a sub-chapter S-corporation that owns all the land and improvements of our property in Lyme, NH. Its shareholders are a subset of Pinnacle Project members, notably those who have made loans to Pinnacle to finance the entire project. Over time, Loch Lyme Lodge will contribute/transfer all its assets to Pinnacle Project. The first assets they will sell are the cabins and surrounding land that underlie and surround the cabin condominium.

#22 How will Cohousing affect the cabin condos?

We own 100 acres in addition to the 12 acres that underly the Cabin Condo and its common areas. We plan to cluster all residential development in 6-8 acres above the tennis courts. If Lyme's Planning Board continues to maintain we must create four 25-acre lots and can't protect the open space, and we are unable to get the town to change the ordinance to allow meaningful clustering, then we will create 4 building lots that make as little impact on the cabins as possible. We intend to sell any residential lots only to Pinnacle members. Cohousing will share the common areas of the property (the waterfront, the trails, the Lodge and Barn) with the Cabin Condo.

#23 What are the provisions for continuing management of Pinnacle and the Cabin Condo?

The current on-site managers, Liz Ryan Cole and Rich Brown, remain committed to the project: we plan to live here on the property in cohousing. Furthermore, we expect the cabin condo and cohousing to repay a majority of the debts incurred to purchase the property, so we have a financial interest in continuing to move this project forward.

Establishing the Cabin Condo and starting the Cohousing project will bring other capable people to the project who can sustain the energy and cooperation even in the founders' absence. As new members join the project, we expect they will choose to take some of the management and organizational work. Members elect managers: if something happened, other members would be able to step up.

#24 Ownership of the Property

Cabin Members own their entire cabin – interior and exterior – plus an undivided interest in 6 or so acres of the “Lodging Lot” that surrounds those 19 cabins. As Pinnacle Members, they also have rights to all other common areas of the property including the waterfront, meadows, trails, Lodge, and the Barn, and excepting the area immediately around the cohousing units.

It is our long-term plan to have Pinnacle Project LLC (the entity of which everyone is a member) own all the common area property: the beach, the Barn, the Lodge building, etc., while the Cabin Owners and Cohousing owners own their respective units. In the interim, Loch Lyme Lodge, Inc. will own certain parts of the property.

#25 What are the advantages of becoming a Pinnacle Member?

Pinnacle members may come to and use at any time all the commonly held property, make early cabin reservations, enjoy a role in decision making for the Pinnacle Project, LLC ,and receive a \$500 per year discount on purchases at the Lodge.

#26 I'd like to learn more.

For more information, please email info@pinnacleproject.info or contact:

- Liz Ryan Cole (802-274-1511) or
- Rich Brown (603-795-2525)

Note: This communication is provided for informational purposes only, does not constitute an offer for the sale or disposition of any interest in a condominium unit, and is subject to change. Use and occupancy of all condominium units will be subject to the terms and conditions of a condominium declaration, bylaws, and other documents in accordance with the N.H. Condominium Act, N.H. RSA chapter. 356-B. In addition, this communication may be subject to state security laws and local planning regulations which may affect the final documents.