

AIC Transition Plan

Many camps in the AIC have been successfully passed down through 3 or 4 generations of the same family. It's possible for you to do the same, however you need to start planning now. A transition can be a difficult time; there are many things to be concerned about, money, taxes, emotions, the feelings of family members, etc. A transition can also be a wonderful time where a camp is passed down to the next generation of excited, caring camp directors who will continue the family's stewardship of their camp. There are many factors to consider when looking at a transition, most importantly who, how and when? This report will look at a few different types of transitions and what you need to do now to create a successful transition for your camp.

Things to do and consider at the very beginning:

Family Board/ Family Business Council.

A Family board or Family business council can be very helpful in a family business such as camp. The family board is typically not involved in day to day operations of the camp, but is set up to provide feedback and discuss major projects/plans. The family board usually meets once or twice a year. For the family members working in the business it provides a way to hear what the other family members think and allows for rational discussion regarding the future of the camp. For a family member not working in the business it allows their thoughts and feelings to be heard. Having a family board set up and having regular meetings helps keep everyone up to date and on the same page.

Discussing a transition your family board is of great benefit. When more generations become involved a family board is very helpful in giving a voice to all the generations and letting them know about transitions before they happen. Many families have been torn apart by a sudden announcement that the camp is being sold. Having a discussion with the family before the decision was made could have saved many hardships. It's important to get everyone in the family on board from the beginning. This is a very emotional process for everyone involved; founders, family, grandchildren.

Another benefit to a family board is the prevention of burnout. In tough times it can be easy for one person who is running the business to get stressed out and decide to sell.

When the decision to sell is spread out among more people it can prevent a camp from being sold for the wrong reason or because of temporary burnout.

When your family board meets everyone should be encouraged to talk openly with the whole family about the options and each others needs. It's important to find out the needs and feelings of both generations, current and future.

Siblings

There are many different scenarios involving siblings- what's fair to each, who defines what's fair? If the camp does not make up the bulk of the parents estate, it makes the transition easier. If the camp is the bulk of the parent's estate, and there are multiple children it can be difficult to keep everything fair; especially if some are involved in camp and others are not. What do you do if one child wants to run the camp and you have nothing to leave to the other children? Is it fair to the child running the camp that their siblings who don't work at camp each own an equal share? Do any of the children deserve to inherit the camp? Do you buy more camps to grow the business along with the amount of people involved? These are all great questions and the answer is different for every family.

You should work with your family members, family business consultant, lawyer and accountant to come up with the best plan for your situation. This plan should take into account:

- How much of the parent's overall estate the camp makes up.
- Are there any children that are involved in the camp? Are there any children that are not involved in the camp?
- What are the needs and expectations of each family member?
- What is the best way to accomplish the overall goal of the family?
- How do you reward the child who is involved in the business without punishing the other children for not being involved?
- What happens to future generations down the road?

Who do you involve in the transition?

Camp directors are experts at running camps; however we are not all experts at tax law, legal planning and finances. It's important to seek help and advice from trusted, knowledgeable sources.

Family Business Consultant

The transition of the responsibilities of camp and the emotions that go along with them are often more difficult than the financial transition. Running a camp is more than just a job, it's a lifestyle and one that is very personally demanding. Many camp directors define themselves by their jobs and their roles at camp. Letting go of those roles and watching someone else fill those roles is difficult.

A family business consultant can help you navigate many different areas of the transition. Family roles, family history and fairness to each family member are all difficult pieces of the transition.

It can be difficult for the older generation to let go of their ego and be ready to watch the younger generation take over; to realize that they will make mistakes along the way and that you need to let those mistakes happen. That can be a difficult thing to hear from your child, however when it comes for a neutral source, it makes it a little easier.

The younger generation is sometimes overeager. They tend not to believe their parents when they say "you are not ready yet". It's important to have a neutral person who can help with these situations. There will be many areas of responsibility that will be shifting and it is important to plan for these changes. It's vital to have an outside source to help conduct evaluations/ benchmarks to determine when the transition of the responsibilities is complete and when the next generation is ready for more responsibility. Set up benchmarks for each area of responsibility and timelines of when to conduct a check up on those benchmarks. The family business consultant will help to hold you to these things.

Accountant

Your accountant can help you determine the pros/cons and tax benefits with regards to both the seller and buyer. It's important to be clear up front about the needs and expectations of all parties.

The sellers need to figure out their goals and vision in advance. If their goal is to make the most money possible from the sale, it may not be best to sell to their family. If their

goal is to keep the camp alive and strong within their family, they should not expect top dollar. The selling generation needs to determine if the value of keeping the camp in the family is worth more than the higher price tag.

There are countless ways to structure the financial end of the transition. Your accountant can help you come up with the best solution for your family.

The most common types of transition plans in camps include:

A straight buyout-The buyer purchases the camp with money they already have.

A loan, whether a GRAT(grantor renewed annuity trust) loan or other form of balloon payment-The buyer takes out a loan from the bank or from the seller and then pays off the loan over time.

Buying a camp with dividends/profits-The buyer purchases stock (via a payment note or mortgage) in the business and then uses the dividends they receive as a shareholder to pay off the loan/note.

Not for profit transitions- Changing the tax status of the camp to a non profit company that can be transferred much easier.

Life Insurance plans-Where the buyer takes out a life insurance plan on the seller; when the seller dies the buyer uses the insurance money to purchase the remaining shares of the business. Ex. An insured buy-sell agreement (agreement funded with life insurance on the participating owner's lives) is often recommended by business succession specialists and financial planners to ensure the buy-sell arrangement is well-funded and also to guarantee there will be money when the buy-sell event is triggered.

Creating a Land trust or a conservation easement to ease the burden of having to purchase a large parcel of land- This is typically used when the value of the land is excessive or when the camp owns a large portion of land (in excess of 500 acres).

Lawyer

A number of camps struggle with the issue of who can own the camp. Can spouses be owners? What about multiple generations? These issues should be discussed with your lawyer and your accountant. The decisions you make will shape who can own your camp and how the transition will take place. For example, you may have a sibling who is not involved

in camp, but his children may one day want to be involved in camp. The documents you create now will have an impact on those future generations. Make sure that you talk openly with your family and consider all the possible options and scenarios.

Many documents will need to be created during this process including a buy/sell agreement that outlines your transition plan. Having a trusted lawyer who knows your business is incredibly important. For many sellers, the sale of the camp will have a large impact on their estate and their estate plans/wills may need to be updated as a result.

Buy-Sell Agreement

A buy-sell agreement can be thought of as a type of "premarital agreement" between business partners/shareholders. It is often referred to as a 'business will'. An insured buy-sell agreement (agreement funded with life insurance on the participating owner's lives) is often recommended by business succession specialists and financial planners to ensure the buy-sell arrangement is well-funded and also to guarantee there will be money when the buy-sell event is triggered.

In the sale of a business, a buy-sell clause in a shareholder agreement preserves continuity of ownership in the business and ensures that everyone is fairly treated, the buyer as well as the seller. It is a binding contract between business partners or shareholders about the future ownership of the business. A buy-sell agreement is made up of several legally binding clauses in a business partnership or operating agreement (or it can be a separate agreement that stands on its own) that can control the following business decisions:

- Who can buy a departing partner's or shareholder's share of the business (this may include outsiders or be limited to other partners/shareholders);
- What events will trigger a buyout, (the most common events that trigger a buyout are: death, disability, retirement, or an owner leaving the company) and;
- What price will be paid for a partner's or shareholder's interest in the partnership and so on?

Buy-sell agreements can be in the form of a cross-purchase plan or a repurchase (entity or stock-redemption) plan. For greater neutrality and effectiveness of the buy-sell arrangement, the service of a corporate trustee is recommended.

Clawback clauses

A clawback clause is a contract provision that requires a party who has received a benefit to return that benefit due to specially arising conditions. Many camps use a clawback clause to protect against the sale of the property to a developer. For example, if you sell the camp and the buyer turns around and sells it to a developer one year later a clawback clause would in essence mean that you would receive the money from the developer. Clawback clauses typically help to prevent this scenario from occurring. Clawback clauses are often used when the camp is being sold to someone outside the family. If you decide to use a clawback clause you will also need to decide on the length (2 yrs, 5 yrs, 10 yrs).

When do you start planning the transition?

You should start planning as soon as possible. Many camps have been forced to sell due to a sudden Death in the family; proper prior planning can help avoid this. Many transition plans are started too late, making the task more difficult by not having enough time to complete the transition in a manner comfortable to both the buyer and seller. Once you have a basic framework set up for your transition, you should create your buy sell agreement.

At what point do you start grooming your children?

This is a personal decision that all camp directors face. Make sure you anticipate how your children may feel before you mention any camp related succession to them while they are young. You may want to talk to the grown children of other camp directors to get their perspective. Many camp directors' children felt "pushed" into the family business, while others really enjoyed the family business and chose that profession on their own. Talking with other camp directors and their children will help you decide what you do and don't talk about with your children regarding camp.

When do you tell your camp families and staff?

How do you tell them? I think this issue is best addressed in a letter or in person. For most camps, getting all their families together in one place is not really an option. Many camps have newsletters or email chains, however, this issue is large enough to deserve be

addressed on its own; it should not be part of a larger newsletter, blog or email. For the majority of your camp families this is very important and you should respect their feelings in your announcement.

What are the important things to include in this transition statement to families?

When we transition our camps we are always looking for the best possible successor. It's important to let our camp families know that we have chosen the right person. Clue them in to the process you have used and how you know that you are making the right decision about the future of your camp. If the new directors are members of your own family, emphasize the importance camp has played in your family and how you know that will continue in the future.

Your job at this point is to reassure your camp families that camp will continue to be run in the same wonderful caring manner they have been accustomed to. How you act with the staff is incredibly important. The selling generation has to be real with the staff and show that the younger generation is allowed to make decisions. This means that the transferring generation has to bite their tongue; especially in front of the staff, parents or campers and allow the younger generation to make mistakes. If the staff can clearly see that the transition is real and in the best interest of the camp, their thoughts will trickle down to the campers and parents.

How early in the process should this be done? When you decide to tell your camp families is up to you, however being honest and upfront will always help. I feel that it's best to let the families know early in the process so that they can get used to the new owners of the camp while you are still around. Having a period of time where the old and new owners/directors are working together is a great, safe way to ease your camp families into this new situation and allow them to become comfortable with the new owners while the old owners are still around.

A few different transition scenarios and their plans:

Camps A and B were transitioned to the younger generation of the current family.

Camp A

This scenario is for a camp director (parents) with three children, one of whom is involved in the business and plans to gain ownership. This scenario is assuming the Parents' (sellers) largest assets are the camp and its property and want to make the sale of the camp equitable to all three children.

The Camp is structured as two LLC's. One LLC for the business and a separate LLC for the real estate

To recognize the child (buyer) working in the business the parents (sellers) agree to discount the purchase price of the business LLC. This recognizes the sweat equity the child has put and will continue to put into the business. The buyer starts by purchasing stock in the company 10% at a time. This purchase of 10% of the company is subject to a 10 year term loan with interest payable annually at the Applicable Federal Rate. This is the lowest rate that can be charged on a loan in accordance with government regulations. The shares are nonvoting shares. The value of the 10% was determined by a valuation by a third party. It is intended for the buyer to purchase additional shares on the same terms sometime in the future (buyer and seller determine this timeline together). The loan is repaid by using dividends from the company (since the buyer is now part owner- they are entitled to a share of the dividends) or bonuses paid to the child and using the net after tax proceeds to pay back the loan.

In most camps the land is the majority of the value. To be fair to all three children the parents (sellers) and the child (buyer) agree to sell the land at Fair Market Value at a specified date (can be after or before the full sale of the company, depending on what they prefer). This way the two children not in the business can feel good about the sale as the child in the business did not "get a deal on the land". Should anything happen to the parents prior to the sale to the child in the business an independent trustee will control the LLC that owns the land so that the children who are not in the business but would inherit the partnership interest do not have any conflicts with the child in the business who would also inherit a partnership interest.

Camp B

Parents held a family meeting with 3 children. Told them they were going to run camp for 10 more years and then wanted to retire. Were any of the children interested in the camp? The three kids talked about it and 1 child expressed an interest. Decided that the child (buyer) would come back to camp in 5 years to start the transition with the parents (sellers).

They brought in a mutually agreeable family business (management) consultant and laid out plans for the next 5 years. Each year the child would take on all the new families and create a relationship with them. The parents would keep their relationship and primary contact with all the old families. Each year the child would take on a little more of the business aspect of running the camp (insurance, bookkeeping, staffing, etc.)

The Parents and the Child would meet with the consultant twice a year. At these meetings they would talk over everything that was going on and the consultant would help them smooth out the wrinkles-figure out how they were working with each other and keep everything on track.

They were clear with their camp families about the transition from the beginning. When the child came on board, they sent a letter to all families telling them that he was coming on board, will be the director and owner 5 years down the road and loosely mapped out the transition plan. Each year they would send a letter to all families updating them on what was happening with the transition.

Each year both the parents and child would travel together and the parents acted as a bridge to help the child create relationships with all the camp families and alumni.

By the 4th year of the transition the parents were "invisible". Child was running the camp and everyone was happy.

Financial

Parents figured out what they needed in terms of money. Then they worked backwards from that figure and came up with a ball park market rate that would not flag the IRS. This figure represented the camp and the land. They set an interest rate that would allow the parents an income rate they were comfortable with and it was a 30 yr note. If the parents died before the note matured or was paid off, the child would continue to pay 1/3 to each of his two siblings. 1/3 would be inherited by him as well.

Child sent a copy of this plan to his accountant and child's accountant and parent's accountants sat down and discussed the pro's and con's of the plan (is it legal, will it be flagged by the IRS). It was helpful to have a second opinion.

In this plan both the other siblings feel equitable compensation, the camp was sold at a fair price.

Once the transition had taken place the Child set up a new LLC to own the land which the existing S Corp (camp) rented.

Helpful hints

Parents and child joined a family business group. They would travel to the groups meeting 4 or 5 times a year. All the people were from a variety of different businesses, but all the issues and stories were the same. It helped create a community for them to share ideas and stories.

They utilized the AIC community and the camping community at large. It was helpful to talk with others who had gone through the transition and those who were facing it in the near future.

The three siblings sat down at the beginning and had a frank conversation prior to the transition to discuss all options and make sure everyone was comfortable with the transition. Sibling in the business did not want the other siblings to feel that he got the camp unfairly. They all discussed their fears and hopes for their relationships down the road.

Camps C and D were originally For Profit camps that went to a non profit status for their transition:

Camp C

Transition from For Profit to non profit was motivated by changing generations and changing family members, Not Financial motivation. Business was doing well, not failing. Ownership was going to be split from 1 family to multiple family members (marriages, children, and successive generations). Some wanted to cash out, some wanted to keep camp going.

The biggest task at the beginning was convincing the 5 stakeholders to let go of their (perceived) inheritance and start a foundation. The emotional issued of the family were huge as many generations (kids, grandkids) below the 5 stake holders were feeling like they had lost their inheritance.

The family had to come to terms with the fact that camp was no longer just theirs.

Set up a Board of Directors who all shared the same vision of camp. They were limited by the IRS as to how many of those members could be of the owning family.

The board members that were family served as the connector with the board and the family. They helped to keep the peace and focus on the camp's vision and goals.

It was important that the board members were not just yes men. They did not interfere with the daily operation of camp; they were there for the major decisions and were a support system for the director. The board had a lot to do with the fundraising for the camp. They addressed major issues on a board level and helped decide if they made sense for the camp.

When they decided to go non profit they started looking for a full time director. They held formal interviews even though there was an "heir apparent" already in the organization. An executive compensation committee was formed to identify a salary. There is a yearly review system in place to determine the performance of the director.

Pros for the family are the emotional assurance that the camp will keep going. Cons are a loss (even if just perceived loss) of inheritance and monetary gain.

Ones of the pros for the camp is that they became truly motivated to seek and develop an alumni base. This has fostered a great reconnection and strengthened the camp. The

alumni have rallied behind the camp and are there for help, both in terms of monetary support as well as their time and shared history.

Camp D

Transition from for profit to non profit was motivated by a desire to protect the property (over 6000 acres) and to preserve the vision of the camp. Camp was a for profit camp that had over 6000 acres. In the 60's the camp added a school program that was a non profit. The two programs ran side by side for decades. The family wanted to protect the property and the continuity of the camp. They decided to take the camp to non profit status and merge it with the school program (which was already non profit)

If they had tried to sell the camp and all of its land to the next generation, it would have been next to impossible.

They had issued stock over the years and needed to have an appraisal of the property and a valuation of the stock. They created notes for the stock based on the valuation and paid off the stockholders with 10 or 20 year notes.

They created a small board of directors with outside parties, not just family. 10 years down the road, they feel like the board is just coming into its own and acting like a real board. Each year they would implement a new procedure such as a nomination committee to make the board like a real board.

The board hires the executive director, but has no contact with any of the other staff. The board does not manage the day to day operations of the camp, but advises on the major decisions. The board is very involved in fundraising and building the alumni base.

Best results of the transition

Fundraising- especially in this economic climate, the ability to raise funds and renovate facilities and create an established scholarship program is wonderful.

The directors really value the input of the board members. For example, having a lawyer who sits on the board and is able to advise the director is very beneficial.

Alumni-The board is able to engage more alumni and develop the alumni base. This newly established base of loyal alumni is able to give the alums of camp a greater voice and feeling of ownership towards the camp.

Provides freedom for the kids and grandchildren. None of the family members feel an obligation to go into the family business or that they need to help out at camp. There is no longer an expectation that they have to work at the camp. This freedom allows them to pursue their own paths and their own interests.

The change to non profit status helped create a real team environment. The staff are allowed ownership of their part of the budget. Each had a defined area of responsibility and willingness to help the camp as a team.

Main areas of change as a result of non profit status

They had to be more business like. In the past the budget was all done in the director's head. Now there needed to be a real written budget that was reviewed and approved by the board.

We are all lucky to be part of such a wonderful organization where sharing and helping each other are commonplace. When you are thinking about and planning for a transition the best place to look for support is your fellow camp directors. I strongly encourage you to reach out to other camp directors to find out what worked and did not work for them during their transitions. I am always more than happy to talk with other camp directors and find that I always learn as much from them as they learn from me. Thank you to all the camps who provided the insight and knowledge gained from their transitions in order to make this document possible.

Please feel free to contact me at any time if you have any questions.

Gabe Chernov

Birch Trail Camp

Gabe@birchtrail.com

This document was produced by Gabriel Chernov and the AIC for the benefit of its members. Neither Gabriel Chernov or the AIC nor its employees shall be liable for any errors, inaccuracies or delays in content, or for any actions taken in reliance thereon. Gabriel Chernov and the AIC nor any of their employees, makes any warranty, express or implied, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights. Legal service provided by Dewey, Cheatum and Howe.