

Lake Forest Resort & Club Condominium Association
Board of Director's Meeting
Friday, September 21, 2018

Dan Krueger called the meeting to order at 9:00am. Those present were Dennis Breidenbach, Curt Knapp, Michael Schultz, Laurie McWard, Tim Mikel and Sue Couture. Once the quorum was established, Tim made a motion that the agenda be approved, with Curt seconding. The agenda was then approved. With no visitors in attendance, the meeting proceeded.

Secretary's Report

Tim made a motion to approve the minutes from the April 27, 2018 board meeting, with Laurie seconding. The motion was approved.

A letter from Ty Vanneiuwenhoven in regards to the disposition of Ruth Vannieuwenhoven's weeks was read to the board, and discussion ensued. The board agreed that we should follow the normal procedure for deedback of weeks.

Tammy Schultz has resigned from the board. A preliminary candidate has been considered by the board, and a decision is pending formal approval.

President's Report by Dan Krueger

I want to welcome back Denise to the front office. Many of the Lake Forest owners had become accustomed to her pleasant and cheery disposition over the past several years. And for the time she was gone (a little over a year), she was greatly missed. For any business or organization to be successful, having a team of employees that operates cohesively is vital. It's all about the people. We have amazing people... and I want to take this opportunity to thank all of them for their commitment and passion to be part of Lake Forest. Quite simply, it's because of them that we have the gem of a resort that we have.

Increasing Owner Engagement: This year a growing number of people have been inquiring about the future of Lake Forest and the continuation of its legacy. It's only natural for people who bought their weeks 20 - 40 years ago to want this valued part of their life to continue for their children and others. It's truly been a big POSITIVE part of our owner's vacation lives... memories, family, relaxation, recreation. Over the years I've traded some of my weeks from other timeshares I own and stayed at many very nice resorts. But the Lake Forest mystique and "family" that we have is special. Not many places have what we have.

People often express their satisfaction and ideas to Sue during their time of stay at the resort. Her open-door policy has allowed owners to share their thoughts and feelings about the resort. Quite frankly, having access to the "resort manager" (and for many building a closer relationship with her) is unique compared to most other resorts. Sometimes people express concerns to Sue about the future of Lake Forest and want to contribute their ideas. This has always and will continue to be welcomed. Owners should know that they can share their ideas and ask questions. While these discussions are often time consuming, it is important for owners to feel that their contribution is valued, as well as getting clarity on their questions. They deserve that.

Over the past few years, we as board members have learned much about the integral operations and challenges the resort faces. The average owner has little to no knowledge of these things. Often it can take hours of Sue's time to help shape a proper perspective and clarify an owner's understanding regarding their questions and concerns and/or ideas for the resort. Sometimes these discussions take several meetings, either in person or on the phone. I want us to explore ways to help simplify this process. Possibly some information sheets could be put together addressing common subjects that owners have questions and ideas about that will give owners good information, and ultimately help Sue save some time in her already busy day. We'll be talking more about this later in the meeting.

Continuing to Make Improvements: Owners have overwhelmingly expressed their approval of the improvements made to the resort over the past couple of years. This validates the board's general objective determined at our April-2016 board meeting to focus on making larger dollar improvements to replace/repair items that have been deferred for many years... and to do this sooner, rather than later... specifically within 3-4 years. I believe that our continued focus on this objective will yield even more approval and owner satisfaction. While this approach to our budget has had some impact on the rise in the maintenance fee - it hasn't been that much of an increase. Over the past 2 years the maintenance fee has gone up less than \$60. Half of that increase is due to inflation alone ($\$600 \times 2.5\% \text{ inflation} = \$15/\text{yr}$; $\$15/\text{yr} \times 2 \text{ years} = \30)

In keeping with this original improvement objective on larger deferred maintenance items, 2020 is planned to be the final year of accelerating the payment for these bigger cost items. Then, beginning in 2021 the focus would shift to increasing our Asset Reserve fund for future projects, while also stabilizing the maintenance fee for future years. I am confident that we can accomplish these objectives and complete the final major improvements planned through 2020.

Proposed Bylaw Amendments for Treehouse Village: Treehouse Village (THV) recently sent out a ballot for their owners to vote on to make several bylaw changes. Generally, the changes that are being proposed by THV give their paying owners more flexibility to make the decision to terminate their operation as a timeshare condominium and seek other options of continuation or simply wind things up and sell their properties. This is a better option than being forced to wait it out until 2023 as the number of paying owners continues to decline and result in a prohibitive maintenance fee amount...causing dire financial problems and a limited ability to do anything about it.

Treasurer's Report

Bank Balances as of July 31, 2018

Operating Checking - \$37,779.37

Asset Checking- \$321.65

Asset Reserve Fund: \$105,859.30

Operating Money Market - \$103,919.59

The operating checking account registers for April, May, June and July 2018 were reviewed, approved, and all board members signed off.

The budget performance is on target to meet projections for income and expenses for 2018. Cash flow for 2018 is on target as well.

The board discussed and reviewed the 2019 budget. They discussed increases in operating costs, resort upgrades and shrinkage in ownership maintenance fees while developing the budget. The final budget will be provided in the Annual Call to Meeting newsletter and then voted on, by owners, at the annual meeting in December.

The board discussed the move of \$60,000 from the Asset Reserve Fund to Asset Checking to rebuild the retaining wall behind the resort center, as well as bathroom upgrades including comfort height toilets and new vanity tops. Tim moved that this move be approved, with Laurie seconding. Those funds will be replaced within the next 2-3 years.

Resort Manager Report by Sue Couture

Rental Program: The gross revenue is tracking \$2000 higher than last year which can be attributed to a hike in rental rates. Since 2012 the gross revenues have increased by 20%, with the peak being in 2015. Since then, AirBnB and other private vacation rental properties have become real competition.

Resale Activity: As of 8.31.18 there were 362 weeks on the resale list, up 3% since 3.31.17. That is almost 31.5% of the total weeks in our annual calendar. Finding people interested in fixed week ownership continues to be a challenge, especially in low and shoulder season. We urge all owner families to recommend Lake Forest Resort to family and friends. Information on the 'Lake Forest Resort Ambassador Program' can be found in your condo directory and on our website.

Maintenance Fee Collections: We finished up 2017 with 12.68% in bad debt, up 2.36% from year end 2016. As of 8.31.18 we were tracking 1.49% higher than 8.31.17. Collections activity has taken up a large amount of my time the past several months.

Annual Meeting: The primary point of an annual meeting is to elect members to the board and enact any other business that comes before the association of owners - specifically approving the annual budget - and also offer reports to the owners about association business, both fiscal and operation. As a cost savings measure many resorts have transitioned to sharing this information and conducting voting electronically. December 1st is the Annual Meeting in Brookfield, WI. This year we'll be running an experiment to offer the meeting electronically as well. Stayed tuned for those details in the 'Annual Call to Meeting' coming out in November. By 2020 we anticipate holding the Annual Meeting at the resort with the electronic option for owners.

Sales Tax on Recreation Membership: The State of WI Department of Revenue is now charging sales tax on the fee charged by a homeowner's association to its members for access to or use of recreational facilities. As such, the monthly

fee we pay to the Lake Forest Health and Fitness Center is subject to 5.5% sales tax which has been budgeted for in 2019.

Accepting Credit Cards for Maintenance Fee Payments: The association will once again start accepting credit card payments for maintenance fees. However, there will be a 3% convenience fee to offset the discount and fees we pay to our processing provider.

Pet Policy: In light of more people travelling with emotional support animals we'll be developing a pet policy based on the laws of the Americans with Disabilities Act and the Fair Housing Amendments Act.

Miscellaneous: We're working with the Lake Forest Recreation Area to develop on-site snowshoe trails.

Resort Upgrades: All new pillows and bedding, 8 new sets of living room upholstered furniture (remaining 8 coming in 2019), new boiler in the 109-116 building, 117-124 entry foyer window glass replacement, new kitchen appliances for 109-116 (117-124 getting new appliances in 2019), new washers and dryers in the 117-124 laundry room, new guest bedroom furniture in the 101-108 building, new master bedroom furniture in 103-108, 101-108 and 117-124 sun deck repairs and staining, extensive repairs to many of the master bedroom balconies, kitchen paneling removal in 101-108 and 105-124 re-finishing of bedroom furniture.

Asset Replacement

The committee reviewed the 2018 replacement schedule. All projects have been completed, within budget. Due to cost savings, additional replacements were completed ahead of schedule.

The committee has developed a replacement schedule for 2019. Replacements will include additional kitchen appliances and upholstered furniture. Requested and under consideration by the board are flexible showerheads in all units, along with ironing boards and irons for all units.

The 2018 Proposed Asset Replacement scheduled was reviewed with a budget of \$118,250. The schedule will be presented to owners at the annual meeting.

Personnel and Policy by Laurie McWard

Sue's appraisal was discussed and the board thanked her for continued excellence in her job performance. She met or exceeded all of her goals for 2018. The resort is currently fully staffed and the staff is performing well. Laurie will be meeting with Sue to discuss specific goals for 2019.

Longevity

The idea of a sustainability study was discussed by the board. The board will explore this further.

Most Lake Forest owners have positive memories of their vacations at the resort. Memories of family, outdoor recreation, and simply relaxation. Many have expressed how much they just love Lake Forest Resort and want to enjoy it for as long as they can, and then hopefully pass it on to their kids. So when problems or challenges for the resort arise, it's only natural that they want there to be a solution to these problems.

About 8 years ago (2010) the resort began experiencing some subtle, yet critical changes that are now presenting as major challenges to the longevity of the resort. More specifically, these challenges include;

- 1) An aging owner base resulting in fewer low and shoulder season owners continuing to use their weeks, and an increasing number of them deeding their week back to the resort.
- 2) People shifting away from committing to vacation ownership (i.e.; fixed-weeks) to having more flexibility with their vacationing. This is especially true among people that are post baby-boomers (age 50 and younger). The emergence of VRBO, AirBnB, and Craigslist has dramatically impacted competition in the hotel and resort industry. It's not only the resorts we're competing with, but an increasing number of homeowners that are renting their lake homes at below market rates.
- 3) Deferred maintenance during the past 20 years. While many of the maintenance items were not in need of repair then, not nearly enough money was collected and set aside in the Asset Reserve Fund during this period to be available for recent and near-future expenses. The philosophy back then was simply to keep maintenance fees

as low as possible. The board of directors changed this philosophy 5 years ago and the owners will see the maintenance fee rise because of this and the escalation in bad debt.

With resales of owner weeks during the low season being virtually nonexistent, and few resales of shoulder season weeks; the question is, how do we replace the lost revenue from weeks that are deeded back? Whether it's resales, increased rental income, or something else, that's what needs to be figured out. Without a solution, we face continued fee increases. It's important to know that this problem is not unique to Lake Forest Resort. Most all legacy resorts (40+ years old) are facing the same dilemma. The only exceptions are those that are a destination unto themselves (i.e. Disney Resorts, Vegas, Hawaii, etc.) Put another way, how are we going to get people to come up to Eagle River in the dead of winter and stay the week? (Not just the weekend for snowmobiling.)

Ideas, Suggestions and Solutions

In general, we want to always maintain an open and positive door to ideas and suggestions. In fact, as more owners become aware of the challenges that Lake Forest Resort faces, more ideas and suggestions will follow... our owners want the resort to thrive and continue as does the board of directors and our resort manager.

Ideas and suggestions are the starting point. There are many facts and figures that directly impact the challenges to the resort, including; occupancy rates, rental revenue figures, owner delinquency rates and trends, owner demographics, resale history and trends, weeks for sale, deferred maintenance issues, lack of funding of future expenses, fitness center issues and costs, existing marketing methods and efforts, collection of fees, deed backs and title recovery issues, and on, and on.

Ideas are welcome and encouraged. Fortunately, for the benefit of owners, documents and reports have been prepared for self-education of many of the issues regarding the resort. Sue can provide this information upon request. If an idea is suggested, then please use these resources to develop the knowledge and understanding of the various facets and challenges of the resort. Further discussion with Sue can then determine what additional information is needed to present a validated idea to the board.

Other

The board would like to thank Sue and the Lake Forest Resort staff for their hospitality during the board meeting.

With no other business, Curt moved to adjourn the meeting, with Dennis seconding. This was approved and the meeting was adjourned at 10:21am.

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