

Lake Forest Resort & Club Condominium Association
Board of Director's Meeting
September 17, 2020

Dan Krueger called the meeting to order at 8:59 am. Those present were Tim Mikel, Laurie McWard, George Swierczynski, Dennis Breidenbach, Michael Schultz, Curt Knapp and Resort Manager Sue Couture. Once the quorum was established, Tim moved to approve the agenda. Dennis seconded and the motion passed unanimously. With no visitors in attendance, the agenda proceeded.

Secretary's Report

The minutes from the April 2020 board meeting were reviewed. Laurie made a motion to approve with Tim seconding. The motion passed unanimously. There was no correspondence to review.

President's Report

I want to share more definitively what we as a board are discussing, planning and doing. Many owners are still unsure about, or simply unaware of the resort's challenge with owner shrinkage and how it will affect continued operations. So, my goal is to share essential information that hopefully answers some of the questions they may have in their mind about the future of Lake Forest Resort.

Owner Shrinkage & Delinquency: This year we expect to absorb over 40 weeks back to the association, by owner mortality and deed-backs. By comparison, in both 2017 & 2018 we had 13 weeks deeded back each year. In 2019 we absorbed back 63 weeks. So, for 2019 and 2020 we're going to have taken back well over 100 weeks. This certainly will have a substantial impact on the increase in maintenance fees for the remaining owners. Normally, this increase in fees would be realized in 2021, but because of the money saved by terminating the HFC, along with the PPP funds we received, this offsets the lost revenue for 2021 and will help with 2022 as well.

Keep in mind that most weeks coming back are for low and shoulder season. We estimate that for every week that is deeded back, maintenance fees will increase by about \$1/wk.

Exploring Longevity: As we continue to approach the number of 770 owner-paid weeks that could trigger a repurposing vote, the board is actively vetting ideas and researching ways that will help Lake Forest Resort to continue for as long as possible. Following are some of the ideas we've already received from owners and that we are currently looking into. Keep in mind, this is all preliminary work into vetting ideas. Our goal is to produce "white paper" reports on our evaluation to be available to owners.

The possibility of operating Lake Forest Resort as a seasonal resort that is open spring, summer and fall is one idea we evaluated. (See Longevity report below) This includes the practicality and cost savings of functioning this way, and how this would impact the maintenance fee. There are many considerations involved in this "what if" idea that made it a complex option to evaluate.

We are also evaluating the idea of merging and/or being acquired by other timeshare organizations. (See Longevity report below) As an example, Little Sweden in Door County is a top-end timeshare resort that was acquired by Shell Corporation a while back. There might be some timeshare organizations that present an opportunity for acquisition where our owners would be able to continue their timeshare with Lake Forest Resort in some fashion.

Evaluating long-term rental revenue potential. We're trying to estimate what the association would likely receive in rental revenue in 5-7 years in the future – this assumption is based on what things would look like after increased owner mortality and most of the weeks being deeded back, and what the impact on maintenance fees will be. The goal is to estimate what the shortfall in revenue will be at that time so we can

plan for other ways to possibly make this up... at least to some degree... and thereby extend the life of Lake Forest Resort for as long as possible. Obviously, staying competitive in the rental market (both in quality and pricing) is vital to maximizing our rental revenue.

Tree House Village Winding Up Operations: This past spring Tree House Village let us know that they may terminate at the end of the year. They suffered an unusually high number of weeks deeded back in 2019, leaving them with the prospect of having to charge owners a maintenance fee in the range of \$1100/wk. They determined that would be unfeasible and decided to approach owners about winding up operations at year end 2020. They will hold a final vote this December. If they go through the process of termination, we will be observing and staying in contact with their board and management. With the property and timeshare laws in the State of Wisconsin, this presents an opportunity for us to learn and be aware of the challenges they will face, and the actions they implement.

Covid-19: While many resorts and hotels have suffered financially due to the virus, Lake Forest has fared pretty well. In fact, September looks like it may be a record month for rentals. Steps have been taken by the staff to adapt to the situation, and this has worked out well to keep people safe. We hope that by spring, things should be getting back to "normal" in this regard and our rental revenue continues to increase.

Planning for the 2021 Budget: For the past 5 years, the board's focus has been on making significant capital improvements that the owners can enjoy...things such as the beach improvement, the blacktop parking area, new bathroom fixtures and living room furniture, repairing the retaining wall behind the resort center, and many other things.

As we enter the phase of increased mortality and deed-backs (which appears to be happening now), we intend to shift our emphasis onto building up the Operating Contingency Fund for the future years – to keep fees reasonable for our owners for as long as possible, while keeping the condition of the resort top-notch. We want to prevent large spikes in fees in future years. So, setting some money aside now for the future will help accomplish that as the number of paying owners continues to shrink.

Asset Reserve Fund: For the past 6 years we made a committed effort to increase the amount in the Asset Reserve Fund. I am pleased to say that we now have around \$140,000 accumulated in this account. This money can only be used for the replacement and repairs of physical assets. Given that we've done most major improvements to the resort needed to bring it more up to date now and for the next 5 years, this money will be available to use in future years to meet general asset repair and replacement needs. This will help to keep the maintenance fee lower because we will not need to assess future maintenance fees for funding the Asset Reserve Fund.

Finance

Bank Balances as of August 31, 2020

- Asset Reserve CD #2: \$63,200.00
- Asset Reserve CD #1: \$76,039.03
- Operating Checking: \$57,791.27
- Rental Trust Checking: \$73,450.01
- Asset Checking: \$42,454.16
- Prepaid Maintenance Fees: \$40,515.43
- Asset Reserve Money Market: \$2,501.06
- Operating Money Market: \$171,579.86

The YTD 2020 Profit and Loss Budget Performance was reviewed along with the September through December financial outlook.

The Operating Fund Check Register was reviewed and approved.

The proposed budget was reviewed and discussed. The budget will be sent out with the Annual Call to Meeting with a zero increase for 2021. The board proposes the maintenance fee to remain at \$715.

As mentioned above by the board president, because of the loss of the health and fitness center and PPP funds received, there will be a positive cash situation at year end. The board discussed these surplus funds for 2020 and decided to recommend a portion of it be rolled over to 2021 to offset expected increase in deedbacks and bad debt. The association will be asked to vote on this at the annual meeting.

Vinyl flooring in the condos is past its replacement cycle, with many condos showing tears, gouges and de-laminating. Sue proposed using some of the excess cash to replace all the vinyl flooring. Laurie made a motion to replace the existing vinyl flooring in all units with new vinyl plank flooring. Tim seconded. The motion passed with a 4 to 2 vote.

Resort Manager

This has been a challenging year for everyone and we're happy to report we have been able to keep the resort open, not lay-off any employees and especially keep all staff healthy as we navigated, and continue to do so, through this pandemic. There were many challenges, new policies to implement and additional expenses incurred especially in the housekeeping department. We have prevailed to date and will continue to strive and offer our owners and guests an exceptional vacation getaway during this time when everyone needs a break from reality.

Rental Program: In this year of Covid-19 we saw many cancellations in May, June and even July and then a flurry of new activity which made up for some of the loss. As of 8.31 we are down \$7,931 in gross revenue as compared to 2019. September rentals are trending strong and we hope to make up more of that downturn as the year progresses.

Deedback Program: As of 8.31 we have seen 12 weeks returned via the deedback program and another 12 are pending completion. There have been 11 weeks returned to the association due to owner mortality.

Maintenance Fee Collections: As of 8.31 the percentage of uncollected fees was at 25.93% as compared to 23.28% on 8.31.19. That 25.93% uncollected includes association owned weeks as well. We are on track, as predicted, to finish 2020 at just under 20% in outstanding uncollected fees. There are 32 owners still on a payment plan for 2020 with an approximate total due of \$12,000. This year there were eight owners who paid nothing towards their fee's and those accounts have entered the collections process.

Non-Judicial Foreclosures: This year we plan to have 25 more foreclosures completed and project to have the remaining 40 complete within the next two years.

Other Business: In late May we entered into an agreement with Eagle River Inn to use their amenities which include indoor pool, hot tub, sauna and exercise room. Unfortunately, it's become apparent as the summer has progressed that the facility is not up to our standards. We're hoping to have discussions with their management and owner to see if anything can be done to rectify this.

As most everyone knows our internet service has always been a challenge. It is our unfortunate reality here in the rural Northwoods of WI. Our internet service provider has recently offered us a point-to-point commercial dedicated service which should help alleviate some of the gridlock caused by lack of broadband. It won't be a miracle cure, but it will be better than it was.

Personnel and Policy

Proposed updates to policy manuals were reviewed: Updates to employee policy manual were reviewed. The definitions of full-time vs part time employment were adjusted to remove a potential gap. The definitions of office and maintenance hours were adjusted.

Updates to board of director's policy manual were reviewed. References to the HFC and THV were noted where they can be removed.

Updates to homeowners and guest's policy manual were reviewed. The sections regarding flammable fluids were adjusted. Fees for use of rollaway bed and lost key were increased. Additional cleaning hourly rate was increased. Fee for smoking in unit was increased. The rental commission reference was changed to make it accurate with the current policy. Advance booking dates were changed to allow earlier booking. Homeowner rental rate reference was changed to make it accurate. Maintenance fee collection references were changed to make them accurate.

Tim made a motion to approve these changes, George seconded. The motion passed unanimously.

The Resort Manager Performance Evaluation was reviewed by the board.

Asset Replacement/Reserve

Several Asset Replacement projects for 2020 have been delayed due to COVID19, weather delays, and an injury to a contractor. Most delays were still planned for Fall 2020, but if not able to complete in the Fall will be moved to Spring 2021.

Delayed projects:

- 117-124 Building Washing and Staining
- Family Room exterior doors
- Family Room windows 101-108 & 117-124
- 109-116 Guest Bedroom window replacement

Completed projects:

- Asphalt repair and patching
- New U-dock outside bridge

Project underway:

- Point to Point system for increased bandwidth in all condos.

Discussion was held regarding 2021 asset replacements and the use of Asset Reserve Fund (ARF). At the time, the board has decided to leave the ARF balance alone with no additional contributions due to uncertain longevity of the timeshare structure. The ARF balance of approximately \$140,000 appears to be sufficient for both unseen major replacements and to help reduce current expenses for future replacements to help manage the maintenance fee.

Expected asset replacements for 2021 include:

- 101-108 Building Washing & Staining
- New living room drapes in all condos
- Complete the kitchen countertop replacement cycle (105-108, 109-116)
- Numerous kitchen chairs are in need of replacement
- Complete cycle of master headboard replacement (replacing last remaining original headboards)
- Replace 2 office computers

Replace resort work van with a used vehicle in much more workable condition

Longevity

Tim has contacted a few larger timeshare companies known to acquire resorts for their own portfolio. This was done with an expectation that our current timeshare structure may not be sustainable beyond 4 – 6 years. The intention was to gauge interest in a win-win arrangement where our owners who wished to continue with Lake Forest would be able to under a new timeshare arrangement. Although, there are no promising contacts yet, Tim will continue down this path. Wyndham and Holiday Inn are not viable for us as they do not have interest in such small resort. Laurie offered to help Tim with this research.

Although a tenants-in-common ownership model does not seem practical, there are some examples of success and experts with legal and practical experience in such a conversion. It was decided after some discussion that it might following up with them to see how a resort such as ours could successfully convert to such a model in the future.

Future of Lake Forest Game Plan – the board discussed completed tasks and assigned new ones. The Game Plan will be updated by Tim.

Board member George Swierczynski was asked to evaluate the suggestion of several owner's that we consider, when the time comes for re-purposing, making the resort a one season operation (summer) and close for the shoulder (fall/spring) and winter seasons. Additionally, to consider a two-season operation (fall/spring and summer).

George began with a review of the operating budget and determined only a minimal cost to operate would be reduced as many of the expenses are fixed. Therefore, he focused on the lost maintenance fee's that would take place.

For these considerations, following is a breakout of maintenance fees from paying owners by season; Winter, Shoulder and Summer from 2019 actual owner usage data:

<u>Wks.</u>	<u>Paying # Owners</u>	<u>Weeks</u>	<u>Months of ownership</u>
28	386	Winter Weeks 39 – 18	October – March
12	252	Shoulder Weeks 19 -24 & 33 -38	May – Mid June & Mid Aug – end Sept
8	196	Summer Weeks 25 – 32	Mid - June to Mid Aug
4		Cleaning Weeks 13 – 16	Closed for cleaning

A review of this data suggests the recommendation for the board to consider a one season operation as described above may not be viable because:

1. **For Summer only**-All the 638 owners of the winter and shoulder weeks (the vast majority of paying owners) would have to give up their specific week of ownership possibly requiring,
2. the owners of Winter and Shoulder to be agreeable or bought out and if so,
3. the maintenance fee these owners pay would be lost - approximately - \$480K or an estimated \$1,800 increased maintenance fee for remaining owners (196).
4. If opened **For Summer and Shoulder** and closed for winter, the lost maintenance fee would be - \$290K, or a \$655 increased maintenance fee for each remaining owner (448).
5. Specific unit ownership might have to change for these owners in order to achieve some, although minimum, reduced cost by closing one of the buildings.

Considering the number of winter and/or shoulder owners that would be affected it is clear that closing the resort for off season use would not be advisable as it is the off-season owners who pick up the majority of the expenses.

Also, we should take into consideration that 30% of the summer owners and 18% of the shoulder owners put their units up for rent thereby having a positive cash flow on their non-use.

Seasonal Operation Analysis								
From 2019 Owner Use Data								
				Low	Shoulder	High	Total	
Number of Weeks Original Plan				648	288	216	1152	
2019 Fee Paid by owner:				386	252	196	834	
Ratio of fee paid by remaining owners				60%	88%	91%	72%	
Fee Paid by owner usage:								
Occupied by owner or family member	50%	416		134	157	125	416	
Put up for rent	19%	162		57	46	59	162	
Ratio of owner fee paid who put up for rent				15%	18%	30%	19%	
Traded	23%	193		139	42	12	193	
Not Used	8%	63		56	7	0	63	
Total		834	72%	386	252	196	834	
Remaining owners from original inventory by season				60%	88%	91%		
Income by season:								
Maintenance Fees Paid				250,224	163,414	127,203	540,841	
Rental Income applied to fees				26,076	13,882	21,765	61,723	
Rental Income				14,252	16,031	32,524	62,807	
Total Income by season				290,552	193,328	181,492	665,371	
Association owned		251	22%	263 In association owned analysis				
Delinquent and/or pending NJF		69	6%					
Total		1154						
2019 Rental income data:								
					Total	Low	Shoulder	High
	92,045	Owners week proceeds check to owner						
	61,723	Assoc. & Delinquent week proceeds			61,723	26,076	13,882	21,765
	62,807	Applied to Rental Income			62,807	14,252	16,031	32,524
	216,575							
		Seasonal Operation affect						
		Lost fees from rental of Low and Shoulder			39,958			
		Lost commission for Low and Shoulder			30,283			
		Total Lost Income			70,241			

With no further business, George moved to adjourn the meeting, with Tim seconding. The motion passed unanimously, and the meeting adjourned at 4:15 PM.

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Approved: 12.5.20