

LAKE FOREST RESORT & CLUB CONDOMINIUM ASSOCIATION, INC.

Annual Owner's Meeting Minutes 12.7.19

Board President Dan Krueger called the meeting to order at 1:05pm. Dan established Dennis Breidenbach as the parliamentarian and explained the meeting procedures.

There were approximately 80 owners in attendance along with 25 more participating through Zoom meeting. This has been the most owners participating in a very long time and was especially appreciated and encouraging.

Secretary's Report

Secretary Michael Schultz asked for a review and approval of the December 2018 Annual Meeting Minutes. George Strnad made a motion to accept the minutes, Jon Hanson seconded. The motion passed unanimously.

With no correspondence or other business to report on the meeting proceeded to the President's Report.

President's Report

"Much of what I want to share with you follows the same topics that I mentioned in my President's Message from our September 2019 Board of Directors Meeting - which was included with the Annual Call to Meeting Newsletter that you all received.

Owner Shrinkage: 2019 proved to be the year that we are seeing the increase in the number of weeks being deeded back that we've been planning for become reality. So far, this year we have 46 weeks deeded back. By comparison, in both 2017 & 2018 we had 13 weeks deeded back each year. As you can see, that's a massive increase and certainly will have a substantial impact on the increase in maintenance fees for the remaining owners...starting possibly in 2021. We can estimate that for every week that is deeded back, maintenance fees will increase by about \$1/wk. And because the weeks being deeded back are low or shoulder season weeks, it's not likely to add much in rental income.

It's important to know that for most people that deed back their week, it's not necessarily the amount of the fee...they just don't use their week anymore. The factors of age and/or illness and moving out of state are the primary reasons. With no one in their family that wants the week/s, the association must get them deeded back.

Proposed Bylaw Amendments: I'm pleased to announce that both changes to the bylaws that we proposed to the owners have passed. An overwhelming majority of owners approved of these changes. As expected, there were a number of people that called or emailed with questions. Most wanted more clarity about what repurposing meant. Both Sue and I have had many discussions with owners regarding this and the estimated life of the "time-share" structure we presently have. It seems that most everyone understands the dilemma we face with owner-shrinkage in low and shoulder seasons.

And I suppose that some of you have questions about repurposing. We'll take questions toward the end of the meeting to discuss and clarify so please hold your questions until then. We'll stay as long as needed to make sure everyone understands what repurposing is all about.

But for now, I'd just like to touch on the primary reason for this amendment. Had we not passed this amendment, then we'd be stuck with the original wording – which meant we'd have to wait until 21 years after the death of the last surviving child of the President of the United States serving at the time the bylaws were originally adopted back in 1982, before we could take any action to repurpose the resort. Ronald Reagan was President in 1982 when the Lake Forest bylaws were adopted. And President Reagan's son, Ron Jr. – now age 61, is alive and well. That being said, the board's concern was that if Lake Forest Resort is no longer able to continue operations because of financial hardship brought on by owner shrinkage and maintenance fees rising to a point of un-affordability, that the owners would likely need to change the structure to something other than a time-share resort, or sell the property at that time.

Quite frankly, getting 67% to agree on passing an amendment to the bizarre wording of this provision in the final hour, and then figuring out what path of repurposing to take would be an overwhelming challenge. It would be hard to get owners up to speed quickly about everything - at that time and then get 67% of the votes needed for approval submitted in a timely manner. So, we thought it prudent to change the wording of that provision of the bylaws now... to enable the board to start research on viable repurposing options.

In the end, the owners will still have to approve any plan that the board would propose. And, the other change in the amendment was to only require 55% instead of 67% of owners to approve moving forward on any proposal. This is because at that time, it's likely that we will need to move quickly because of financial pressure. We anticipate that "time will be of the essence" to move forward with whatever the majority of owners agree on. Again, we'll take questions on this whole thing later in the meeting.

Budget for 2020: For the past 4 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 the amount of deed backs continues to increase, we intend to shift our emphasis onto building up the Asset Reserve Fund for the future years repair and replacement needs. Our goal is to keep fees as reasonable as possible, for as long as possible, while keeping the condition of the resort top-notch over the next 4-7 years. We want to prevent large spikes in fees in the later years while keeping the resort condition up to speed. So, by setting some money aside now for the future, will help accomplish that as the number of paying owners continues to shrink.

We'll get into the budget in a little bit, and I'll have Dennis – our Treasurer, to go over the budget and address any questions you may have at that time. I do want to share some really great news that everyone should be happy about. Due to an increase in rental commission revenue in 2019 and Sue's hard work to achieve substantial savings on budgeted expenses we will have a considerable amount of

excess cash at the end of the year. In fact, we have enough to reduce what we anticipated for next year's maintenance fee of \$743, down to \$715, assuming we are all OK with allocating this excess cash to cover some of the 2020 budget. We'll be entertaining a motion on that later in the meeting.

Great Financial Health: I just want to conclude with...we are in excellent financial health...today. While the discussions that the board has during our meetings is about the challenges we face in the future; presently we are in very good financial health. The condition of our resort is in great shape. We have no debt. We have some funds in reserves for future asset improvements and repairs. We have a fee that is very competitive for our size and quality of condos. Sure, we'd all like to have a lower fee. But in comparison to other time-share resorts in the northern Midwest, we stand above the competition in quality, and at a weekly fee that is lower than most. It's important that while we spend much of our time discussing the challenges we face in the future, that we also recognize that today we have an outstanding value for the amount we are paying... for the resort we all love.

Friday Check-in: We're preparing a survey to be sent out in January to get a sense of owner agreement regarding changing the check in date for the shoulder and low seasons.

In 2016 we conducted an owner survey about changing from Saturday to Friday check-in year round. Our goal was to create more opportunities for rental income. However, we were met with substantial opposition from owners. So, we tabled the idea for another time. I believe that time has come to revisit the idea. The fact is that most people that come during low and shoulder seasons do not rent for a whole week.... just the weekend. And, they want to check-in on Friday afternoon/evening. This really limits our rental opportunities during these seasons.

This change presents the potential for increased revenue. However, this would require a bylaw change...meaning 67% of the owners would have to approve this. And for this to have a chance to pass, we need to really think through our messaging and information to the owners about how this would work and the benefits of doing so. My hope is that we conduct another survey to the owners about this idea to get their feedback. Of special importance is the feedback we receive from the owners during shoulder and low seasons since this change will be affecting them. That way we can know whether it makes sense to proceed with another proposal to change the bylaws."

Election of Directors

Following the counting of all ballots cast, it was declared that Laurie McWard and Tim Mikel were re-elected, and George Swierczynski was elected to the board of directors.

Resort Managers Report

"Normally during my manager's report I share a lot of statistics all of which are available to read in the board meeting minutes on the resort website. I encourage all owners to read the minutes if you haven't already because that is the best way to stay informed about what is happening with your resort.

I'd like to mention how happy I was with all the support owners have shown the resort these past six months. Since the notice went out for the creation of the Sixth Amendment and changing the current by-law for board member term limits, I've literally had owners in my office several times a week.

Everyone was interested in clarification on the challenges the resort will face in the future and once the realities were explained further, they understood and were grateful for the hard work that myself and the board of directors are doing to extend the longevity of the resort. And for that I thank you.

I'd also like to mention that the resort rental program is thriving! This is vitally important as the proceeds from the rental of association owned week's helps to offset the unpaid maintenance fees from those weeks. This year we estimated and budgeted to earn a commission of \$50,500 and we're going to wind up the year with over \$62,000.

I know many of you came here to ask questions so I will now turn over my time to our treasurer, Dennis Breidenbach, so we'll have plenty of opportunity later to hear from all of you.

Thank you for participating in today's meeting, it's wonderful to see so many owner's in attendance both here in the room and online."

Treasurer's Report

- Bank Balances as of October 31, 2019
 - Operating Checking - \$54,782.26
 - Rental Trust Checking - \$53,976.37
 - Asset Checking - \$1,094.97
 - Prepaid Maintenance Fees - \$44,774.77
 - Asset Reserve Fund - \$15,696.48
 - Operating Money Market - \$76,501.47

The 2020 budget was presented to owners for their review. The suggested maintenance fee is \$715.

The following questions were asked during the treasurer's report:

Q. What is the prepaid maintenance fee account?

A. Funds received from owners who deedback weeks to the resort. The deedback procedure requires both current year funds to be paid as well as additional funds that are applied to future year's maintenance fees.

Q. What is the fee to deedback a week and are we successful in collecting it?

A. The fee was current year plus 2 years maintenance fees. However, with the projection of future maintenance fee increases, the board chose to use a specific amount which is now current year maintenance fee plus \$975. Yes, we are successful in collecting these fees because the deedback will not be completed without the fee being paid.

Q. What is the difference when there is a death of an owner regarding these deedback fees?

A. The resort does not charge additional fees to take back a deeded week due to death of the last surviving owner.

Q. Has the board considered having a discussion with older owners to see if they would deedback now for a fee rather than wait until an owner dies as the resort could receive more funds?

A. This is a very sensitive subject and not likely to be undertaken at this time.

Q. Does the law require ownership of a week to be passed to heirs upon death of the last surviving owner?

A. The week would likely be offered to heirs and may even be given to heirs in a will, but heirs are not required to accept any inheritance not wanted.

Q. Should we increase marketing budget to increase rentals and sales?

A. Most rentals and sales come from very inexpensive sources – repeat business, referrals, online rental sites. Additional expenditures such as print media are not likely to be successful. However, the budget currently has contingency funds that would allow our manager to take advantage of an advertising opportunity should one become apparent. We plan to do more online marketing through social media and hope to have a new website built in 2020.

Comment from an owner: We should use Facebook to share Lake Forest Facebook posts. This helps get the word out to many people.

Q. Is the association allowed to sell the association owned weeks?

A. Yes and we do actively market these. However, most association owned weeks are in low season with little or no demand for those weeks.

Asset Replacement Report

2019 Asset Replacements were completed on budget. Asset replacements included living room wood furniture in 8 units; living room upholstered furniture in 8 units; and 6 new sets of kitchen appliances. Those purchases completed the cycle for all units for these major replacements. We also removed and replaced the old, deteriorating railroad tie retaining wall behind the Resort Center with a new rock retaining wall. All units received new, comfort height toilets in both bathrooms as well as new vanity tops.

In addition to planned replacements, there were additional updates and replacements made due to substantial positive cash flow as a result of increased rental revenue and expenses less than budgeted. The board chose to spend this positive cash flow rather than carry it over and lose a portion to taxes. Also, the items purchased will eliminate the need to make these purchases in the near future, thus reducing future asset replacement budgets helping to mitigate a least a portion of projected escalating maintenance fees. The purchases to be made to offset future expenses include:

- 11 new kitchen countertops
- 10 new microwave cabinets and microwave ovens
- Upper bath tub grab bars
- Larger TV's in all units (living rooms and master bedrooms)
- Patio furniture
- Replacement linens and towels
- Additional fixes and decorative updates

The board is also recommending that the owners in attendance approve \$25,000 being moved to the Asset Reserve Fund. This will allow us to modify the proposed budget for 2020 with \$25,000 less going to Asset Reserve Fund thus reducing the 2020 maintenance fee by \$18 from \$743 to \$715.

Personnel Report

Laurie McWard asked the audience to join her in thanking Sue and the staff for their continued hard work and dedication for LFRC to make it a resort of excellence. She mentioned that the Board has been very pleased with the goals that have been accomplished by Sue.

She also discussed that the present labor shortage is critical. We are presently operating in less than full capacity in the office and maintenance and we are always looking for quality candidates to help with housekeeping. It is not just a LFRC issue; the labor issue is affecting the whole Northwood's area. There have been businesses that have closed due to this problem. She encouraged anyone who knew of someone in the area interested in work, to apply and/or contact Sue.

New Business

Jay Walt made a motion to rollover \$25,000 of 2019 positive cash flow into the Asset Reserve Fund thereby lowering the 2020 Asset Reserve Fund contribution from \$50,000 to \$25,000. As a result the maintenance fee will be lowered from \$743 to \$715. Janet Hughes seconded. The motion passed unanimously.

Ed Oertel made a motion to accept the revised 2020 operating budget with a \$715 maintenance fee. Tom Snider seconded. The motion passed unanimously.

John O'Meara made a motion proposing an amendment be brought before the owners to vote on changing Article II, Section 7 of the Association's Re-Stated By-Laws. The proposed amendment would suspend the board of director's rights to vote association owned weeks. Glen Arnold seconded. After discussion from the floor it was decided that this amendment would be brought before the owners sometime in 2020. The motion passed.

The following questions were asked during this time of the meeting:

Q. In regard to replacing the pier just outside the bridge, it is very shallow. Should we look into a permit to dredge that area as well as the bay?

A. The area of the pier where boats are docked exceed the 18 inch depth minimum required to obtain a DNR permit in both locations, so a permit would not be available to us. Owner Mark Schmalz would like to follow up with the DNR regarding this.

Q. Would we consider moving the current U dock at Nature Point to the old pier being replaced and installing a permanent pier at the Nature Point location?

A. A permanent pier creates additional issues, in particular with ice. The existing dock was recently given additional bracing to keep it more stable when waters are rough. This appears to have resolved that issue.

Q. Why doesn't the board consider an audit every year? The cost of each audit would be lower.

A. The cost of an audit is high and the board is currently satisfied with an audit every 3-4 years and an annual compilation report from our long time accountant. However, this will be taken under advisement and discussed by the board. We currently have high over-sight of our bookkeeping practices which includes a bookkeeper coming to the resort every two weeks to perform payroll and A/P, and our treasurer reviewing the check registers and financial reports on a monthly basis. These reports and registers are also made available to all board members for their review.

A comment was made regarding the current Compilation Report and financial statements that are omitted from this report. In particular, there is no report listing assets, depletion, and funding needs for future replacements. A copy of such a report was shared with the Asset Committee chair.

Response: The manager and board do currently have a similar report, but don't publish it as it's not required in the state of WI to do so. It is used for planning and budgeting.

Q. How many weeks does the association own and how many were sold this year?

A. The association currently owns 349 weeks. Although not certain of the number, it seems that 2 or maybe 3 association owned weeks were sold this year.

Q. Are there any plans to replace concrete on patios outside of condo units?

A. Replacement is not planned at this time although concrete repairs will be done in some areas.

Q. Does the board have any plans for marketing weeks that have been deeded back?

A. We do market these weeks along with other weeks for sale. Additional marketing ideas are welcome.

Q. To maximize occupancy during shoulder season, should we consider lowering owner rental rates?

A. These are currently specials run that are very inexpensive to owners in the late fall. The rates that are in place need to be sufficient to cover any costs to the association, such as housekeeping.

Q. Doesn't the association have rights to the Lake Forest boat ramp and dock? Why was the dock removed?

A. The association does have rights to the ramp, but the dock is not a required inclusion, so we had no say in its removal. In addition, we do not recommend use of that ramp.

Q. The Recreation Membership fee is 9% of the budget. Can we offer something else to force the fee down for the Recreation Center?

A. The Recreation Center is open essentially for the benefit of the 2 resorts (Lake Forest and Treehouse). As such, the fee paid must be enough to sustain the operation of the Recreation Center. Although it is high, it also provides considerable value to the resort including rental value, an offseason advantage over other rentals, and trade/exchange value with exchange companies. Not much can be done to reduce or eliminate this fee without substantial negative impact to the value of ownership.

Comment: Thank you Sue for all that you do for the resort and your dedication to it.

Q. I purchased winter weeks after coming up on a promotional stay of 2 nights free. Can we still do something like that?

A. We do still occasionally offer free getaways to potential buyers.

Q. For the concept of Friday to Friday weeks, is there an issue with deeds being written for Saturday to Saturday?

A. No, because the weeks are deeded as week number and not check-in day.

Q. It was asked if some discussion could take place regarding repurposing the resort.

A. Tim Mikel reviewed some information that has been done to look into this. Main points of this review include:

- The board has sought input from industry experts regarding the future of a resort such as ours given our current trends and circumstances.
- Representatives of Timeshare Board Member Association and Lemonjuice Capital indicated we are taking the right steps and commended us for our actions. They shared that many resorts do not begin to look at alternatives and longevity concerns until it is too late.
- Our resort is in a strong financial situation today, but we strongly feel we need to be prepared for what may come in the future given our current trends and the impacts to all resorts, not just Lake Forest.
- We currently have no plans for repurposing, but need to know alternatives and be prepared for what appears to be coming.
- The board has created a Game Plan for the Future of Lake Forest Resort. This includes actions to be taken to research and evaluate many aspects of resort longevity which includes possible repurposing in the future.

Q. Isn't "repurposing" just code for "sell"?

A. No. There are other potential options such as dissolving the timeshare organization and creating a new condo association that could have a longer life span than the existing timeshare. There could also be a mix of timeshare and whole ownership or timeshare and rental units. At this time, we do not know the viable alternatives are which is why we are starting to do research. The board will be transparent with owners throughout the process keeping them informed if decisions need to be made or just to understand the direction we may be taking.

Q. I have noticed over 30 years the development and sale of upscale homes near the resort. Would that add to our options such as selling just a portion of our property be sold for development?

A. The association does not currently own any property that could be sold. If the property were to be subdivided we'd then lose 8 condos and that wouldn't be a viable option.

Q. Would there be any grandfathering in with Friday to Friday check-in such as for people who cannot make it on Friday due to work commitments?

A. We are looking into how this could work, but it is not likely.

Adjournment

Jay Walt made a motion to adjourn the meeting at 3:00pm. George Strnad seconded. The motion passed unanimously. (The raffle followed the adjournment.)