

Lake Forest Resort & Club Condominium Association
Annual Owners Meeting
December 3, 2022

Board President Dan Krueger called the meeting to order at 1:00PM. Dan established Jay Walt as parliamentarian and explained the meeting procedures. There were approximately 39 people in attendance and another 34 participating online. The meeting is being recorded this year and will be made available for viewing.

Secretary's Report

Secretary Michael Schultz asked for a review and approval of the December 2021 Annual Meeting Minutes. Owner Ray Mack moved to approve the minutes, with Jon Hanson seconding. The motion passed unanimously.

With no correspondence or other business to report on, the meeting proceeded.

President's Report

To begin, I want to say that while COVID posed real challenges for the resort in 2020... and 2021 was framed largely by employee shortages that we were able to creatively work through... 2022 is certainly turning out to be a defining moment for Lake Forest Resort.

For the past several years the board has been emphasizing the problem of owner-shrinkage – which is simply owners deeding their weeks back to the Association without any new people buying or taking over those weeks. As I've mentioned many times, this is primarily a problem with low-season weeks, and to some degree shoulder-season weeks (the spring and fall).

So as more of the fall, winter and spring owners deed back their weeks, this further increases the fee for the remaining owners. Without new people buying or assuming these low or shoulder season weeks that are deeded back, it was just a matter of time before the maintenance fee would exceed the rental rate for the low season...this is sort of a tipping point. The challenge here is that people don't typically rent a full week in the low or shoulder seasons. So as these weeks are deeded back, we aren't receiving enough in rent to replace the lost maintenance fee. So, for 2023 the maintenance fee will greatly exceed the winter season's tipping point, which we expect will result in more weeks deeded back through the coming year, resulting in higher fees for 2024. We'll talk more about this later when we go over the budget.

How we got here – Shrinkage & Inflation

In addition to owner shrinkage, we have also experienced sharp increases in the cost of things at Lake Forest. Instead of just the national average of an 8.5% inflation rate as you hear on the news, we've experienced something in the range of about double that. For example, our insurance nearly doubled in 2022 from \$22,000 to over \$40,000. Housekeeping supplies also had an increase in the range of 15-20%. And, of course to retain our housekeepers and maintenance boys we've had to make above average wage increases to keep our staff from going elsewhere. So, for example, a 12% actual cost increase would mean that last year's fee of \$791, alone would increase the fee by nearly \$100. And a 15% increase (which is closer to our reality) results in a \$120 increase in the fee. So, inflation alone is responsible for pushing the fee over \$900...which coincidentally is right at the winter season tipping point – people can rent a week at Lake Forest for about \$900 in the winter. But again, there are very few full-week rentals during the winter. It's mostly weekend rentals, and only if there is good snow.

So, you can see how inflation and experiencing more weeks deeded back simply pushes the maintenance fee higher and higher. That's why I asked Sue to email AND mail out the summer newsletter with my message forewarning owners about a spike in the fee. At the time I was implying that we could expect a maintenance fee in the range of \$950 for 2023. At that time, we were projecting about 80 weeks being deeded back by the end of this year – 2022, compared to 40 weeks deeded back last year. At the time the summer newsletter went out in July, there were about 40 weeks already deeded back. And by the time of our board meeting in mid-September, this number had crept up to 67. We then realized at that meeting there would be more than 80 weeks being deeded back before the end of the year – because there were still over 200 low-season weeks owned...with a maintenance fee that would be well over the tipping point. The question we had to ponder was how many of these low-season weeks are going to deed back by December 31st. For our budget planning we needed to err on the conservative side to avoid the possibility of running out of cash by

mid-year 2023. So, we figured half of these weeks could possibly be deeded back – or another 100 weeks in addition to the 67 already deeded back – from the time of our board meeting in September through the end of the year. That would result in a total of about 160 weeks deeded back for 2022. As of today, we sit at about 110 weeks deeded back to the Association.

Why is this happening?

In summary, from the past 3 years of research and evaluation of potential options for any future repurposing of the resort, the board has come to the realization that the challenges to our continued operation really stem from 2 root causes. 1) Changes in technology (namely, the internet) have resulted in a vast increase in competition, as well as a change in trends of how people vacation (i.e., VRBO, Airbnb, etc.). 2) We are not a year-round vacation destination that appeals to the average vacationer for a week's stay during the low or shoulder seasons...like Disney or Las Vegas are. These inherent problems are affecting all non-destination resorts, even in many parts of Florida and other warm weather climates.

So, to put it quite simply, unless there is a solution for attracting a couple hundred people that want to buy a winter week, it seems that owner-shrinkage will continue to a point where the maintenance fee will soon reach the tipping point for the shoulder seasons of spring and fall, and yes, eventually summer season too. If all we're left with in the future is 8-10 weeks of high season owners, you know that the fee will be astronomical.

Estimating Deed-backs and Budget Planning

During the past several years the board has had to estimate how many weeks would be deeded back at year-end. This is so we can determine how much in uncollected fees there would be to arrive at a proper maintenance fee for the remaining owners to meet our budget. The main thing we wanted to avoid was leaving ourselves short of cash because of estimating too few weeks being deeded back. Up until planning for the 2023 budget, that was a lot easier to estimate. The board knew that the process of estimating would at some point become far more challenging. Well, that day has come. So, our approach has been to build in a buffer so to speak. This we have done by increasing the Operating Contingency line item in the budget – Tim will go over this when we get to discussing the budget. And by also estimating an additional 100 weeks being deeded back from what we initially determined back in July. Again, a total of about 160 by year-end.

As many of you are aware, the board has been discussing the issue of owner-shrinkage for years, and we've been sharing our findings and thoughts about this problem very transparently – through the board meeting minutes, emails, mailings, and newsletters... as well as at the past several Annual Meetings. So, we're not surprised as things unfold as they appear to be, but we also empathize deeply with all or you about your decades of memories, and your feelings surrounding this situation. We are owners too and this has been difficult for us to navigate but we must be responsible stewards of the resort. So, with that said, I want to encourage all of you to make the most of your remaining vacation experiences at Lake Forest for as long as we still have it

Election Of Directors

It was declared that current board members Tim Mikel, Laurie McWard and George Swierczynski were re-elected for another term.

Resort Manager's Report

I started working at the resort on October 4, 2002 a little over 20 years now. In February of 2013 I became interim resort manager after Marcy had resigned and the following month I accepted the position of full time resort manager. My first board meeting was the following month. At that meeting I told the board members something that shocked them. I reported that based on the rate of owner shrinkage I had seen over the previous 11 years I predicted the resort would have ten years left. Well here we are 9 years later and what I thought would happen is happening. However, I'd like to emphasize that owner shrinkage is not a phenomenon unique to Lake Forest Resort.

After first becoming manager I recognized that the fixed week timeshare industry was finding itself amid the Great Age-Out. Specifically, our original owner base was aging and relinquishing their weeks for a variety of reasons – specifically mortality, illness, moving out of state and economics. And it became clear that the next generation had different travel

habits. They value flexibility and freedom and resist long-term commitments. The product of fixed-week timeshare ownership was becoming outdated and we needed to do something.

So – moving forward - I made it our focus to concentrate heavily on marketing. Not only to our target market of the new empty nesters, but to younger people as well. Things we've done over the past 9 years to promote resales and rentals include:

- ✓ We offered a leasing option for low and shoulder season weeks
- ✓ We offered promotions to hockey and snowmobile clubs for winter resales and rentals
- ✓ We donated short stays to charitable organizations in an effort to bring new people to the resort
- ✓ We re-branded from using the word "Timeshare" to using 'Shared Ownership'
- ✓ We've run online ads with a variety of timeshare industry websites
- ✓ We promoted the 'Owner Ambassador Program' in newsletters and in the Condo Directories
- ✓ We created incentives for current owners to refer prospective owners
- ✓ We included sales sheets in all the Welcome Packets for owners and guests
- ✓ We held informational gatherings for owners and guests to discuss timeshare related concerns and to promote the resort
- ✓ We created a 'Timeshare Resource Center' in the Resort Center Forest Lounge
- ✓ We offered discounts to owners and their family/friends for rentals
- ✓ We started sending out electronic newsletters and promotional email blasts
- ✓ We built a solid showing of online reviews across several internet sites
- ✓ We got involved in all the social media websites including advertising on Facebook's Travelling Nurses page
- ✓ We've had 2 new websites built with strong search engine optimization to draw in new visitors
- ✓ We built listings on all the Online Travel Agencies
- ✓ We upgraded our Property Management Software in an effort to work more efficiently
- ✓ We increased our online footprint with business listings on a variety of sites which included: Super Pages, Yellow Pages, Yelp, My Resort Network, Timeshare Advisor, ResortsandLodges.com, NorthernWisconsinLodges.com, WisconsinLodging.org and TravelWisconsin.com and more.
- ✓ We advertised through the Eagle River Chamber of Commerce and the Vilas County website
- ✓ We ran – and continue to run – printed ads in the Eagle River and Vilas County Visitor Guides
- ✓ We keep our resort brochures in each condo and also displayed at the Eagle River Chamber of Commerce
- ✓ And it was about 4-5 years ago that we affiliated with RCI, the largest timeshare exchange company in the world. We did this to bring potential timeshare owners to the Lake Forest Resort and give our existing owners more vacation options.

As a result of this increased focus on marketing our rental program has grown and thrived but our resale program has not. Further evidence that the product we were trying to promote is outdated. While all of you love your week/s of timeshare and believe in it, we know that the world has changed and the newer generation does not necessarily feel the same way.

These past few years were especially challenging but here we are with the resort entering its 45th year and I've come to appreciate that this is something to be extremely grateful for. There are many Legacy resorts that don't make it beyond 30-35 years. And there were many Legacy resorts that didn't have responsible stewardship from their board of directors and wound up in very difficult circumstances. I'm proud to say that because of responsible budgeting, management and board leadership that Lake Forest Resort has surpassed its expected life span. But, as we know, the day is coming when the maintenance fees will become so high for the remaining owners that we'll no longer have the revenue to stay operational.

It has been the focus the past few years – of myself and the board of directors – to take a pro-active and responsible approach to guiding the resort through the eventuality of having to re-purpose. Please know this has been a parallel priority, not the main priority. The main priority, on a daily basis, is for the staff and I to continue offering you the best vacation experience possible. And I promise you that will not change.

Treasurer's Report

Reviewed Profit & Loss Performance through October 31, 2022. Income is trending to meet budget for the year. Expenses were also on target for budget through October 31, 2022 resulting in a good financial position overall. A

significant savings (\$12,000) in our business insurance has helped offset inflationary increases in other areas. Thanks to Sue for her diligence in working to find an insurance carrier to provide us the coverage needed at a better rate. The trend in declining maintenance fees continues to be an issue due to owner shrinkage in low and shoulder seasons.

Cash flow through October 31, 2022 shows fluctuations in revenue on a month to month basis, but coming in close to expected through this time of year. As the latter part of the year does not have significant revenue projections, it is expected that end of year revenue will be near budget. Budgeted expenses are tracking close to budget thanks to our budget contingency. Inflation has dramatically increased expenses in several categories. We are in a good position to meet all projected expenditures for the year.

Year-end outlook projects to be very near a balanced budget for the year, though we anticipate a positive balance of about \$30,000. We have been functioning with a much more sufficient staff in all departments – housekeeping, office, and maintenance. This has helped the resort function effectively and efficiently. It is likely that we will have excess cash as we have had the past couple years. However, it is unlikely it will be available to offset the significant jump in maintenance fees due to inflation, cost of labor increases, and increasing bad debt due to deedbacks. The rolled over funds, if approved by owners, will be needed to offset lost revenue from the anticipated increase in deedbacks.

Operating checking account register was reviewed and approved.

As of October 31, 2022, the resort has the following bank balances:

Asset Reserve CD 1	\$78,287.80
Asset Reserve CD 2	\$64,401.02
Asset Reserve Money Market	\$17,707.16
Asset Checking	\$19,970.35
Operating Checking	\$34,001.64
Operating Money Market	\$101,546.92
Rental Trust Checking	\$46,358.33

An audit of the Lake Forest Resort & Club finances for 2020 is complete. The auditor's opinion is as stated here: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Forest Resort & Club Condominium Association, Inc., as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America."

The proposed budget proposal 2023 will be discussed later in the agenda.

I'd like to share a projection of future year finances at this time. This information is based upon forward looking insights of the board.

As we look ahead to what the maintenance fees will be in 2024 and 2025, any increase in the fee will be predominantly due to a continuation of owner-weeks being deeded back to the Association. With about 175 low season owner-weeks and about 175 shoulder season owner-weeks still held by owners (together about 350 owner-weeks for the fall, winter, and spring seasons), this presents what we feel is a high likelihood of 200 weeks being deeded back to the Association by the end of 2023. Our current experience is the primary basis of this projection. This alone will increase the maintenance fee to over \$1700/wk. And, if another 100 owner-weeks are deeded back by the end of 2024, this would push the fee to over \$2200/wk for 2025. These budget projections also factor in that any money spent on asset repairs or replacements would come out of the existing Asset Reserve Fund – meaning these costs are not included as expenses so they would not increase the maintenance fee. However, this would deplete our asset reserve funds significantly.

The board recognizes that there are other expense variables that come into play such as inflation, variations in wages and other expenses, as well as likely more rental income from these new Association owned weeks. However, we believe that these variables may amount to the fee being within \$100 above or below the projections for 2024 and 2025. Obviously, the biggest impact on the fee is from the anticipated number of weeks deeded back.

That said, President Dan Krueger shared the following perspective:

We also wanted to share our current understanding of what the process looks like if the day comes that it is no longer financially viable for Lake Forest to continue operations. The first thing I'd like to say about this is any decision to wind up operations and sell the resort must be approved by the owners. And if the property is to be ultimately sold, it can only be done with clear title on every deed. Then, in the event of a sale, only the owner-weeks in good standing will share in the sale proceeds, net of expenses and any outstanding liabilities.

Finally, for your understanding and perspective, we wanted to share the status of ownership of the 1154 total owner-weeks. The Association owns (including pending deed-backs) 512 owner-weeks. The other 642 owner-weeks are presently in good standing.

Finally, Tim shared that we feel it is important that our owners are aware of these projections. Our goal remains to maintain the Lake Forest experience as well as we can for as long as possible.

Asset Replacement/Reserve

Some of our scheduled projects for 2022 will likely be pushed to 2023 as they could not be completed. Weather has played a factor, but the most significant factor is the lack of labor available to some of our contractors for them to be able to stay on schedule with all of their projects. Availability of materials is also a factor in the delays. There is still a backlog of projects from 2021, as well.

Project status of the 2021 asset replacements:

- Building washing & staining of 101-108 is complete.
- Building washing & staining of 117-124 is complete.
- Guest bedroom window pane replacement in 109-116 has been delayed due to availability of materials. We will probably be looking at full window replacement in 2023.
- Upgraded broadband has been completed and well received by our owners.

Status of new projects planned for 2022:

- Boiler replacements were completed using funds from the Asset Reserve.
- Plan for remodeling of basement into a game room was changed due to water issues in the basement. 3rd floor game room has been upgraded instead.
- All units now have new Weber grills.
- A new U-dock next to the one at 117-124 has been installed.
- New front entry decks for 101-102 and 103-104 will be moved to 2023 Asset Replacements.
- Patio furniture, TV's, and dishwashers were replaced as needed.
- \$8500 has been transferred to our Asset Reserve Fund.

Budget for asset replacements will be updated as projects are completed and paid. Funds not used for 2022 plans will be moved forward to 2023 for the same planned replacements – primarily 109-116 guest bedroom window replacements and new entry decks at 101-102 and 103-104.

Plans for 2023:

We intend to keep the same Asset Replacement budget amount for 2023 (\$50,000) although the funds will come from the Asset Reserve Fund instead of maintenance fees. Projects planned for 2023:

- 109-116 Guest Bedroom window replacement
- Upper level entry decks for 101-102 and 103-104
- Complete Staining of Resort Center
- Replacements, as needed, for kitchen table sets, patio furniture, condo furniture, kitchen appliances, and televisions.

Personnel and Policy

Personnel and Policy chairperson Laurie McWard is happy to report that our personnel are stable at this time. She spoke with the key personnel while at the resort in July and they are all very happy with work and the leadership. Mary Jo reported that the staggered check in has been outstanding - "heaven" was the word she used. As we all know, keeping our staff happy and with us is incredibly important and the Board took some steps financially to encourage retention with our staff. A manager's evaluation was conducted based upon goals set with Sue and she accomplished all expectations and did an outstanding job! We thank her for all her excellent work.

New Business

President Dan Krueger asked for a motion to carry forward approximately \$30,000 in 2022 operating funds to the 2023 budget to offset future deedbacks. Tom Snider made the motion, with Jon Hanson seconding. The motion passed unanimously.

Discussion was held and many questions answered regarding the proposed 2023 budget. Treasurer Tim Mikel noted that the 2023 budget shows that our maintenance would increase by only \$15 if all unit weeks were had owners paying maintenance fees. This is in spite of the significant inflation and compensation increases from 2022. Expenses were reduced \$50,000 by paying for our asset replacements from the Asset Reserve Fund. Revenues were increased by \$80,000 due to expected rental revenue from association owned weeks. However, the cost per owner due to uncollected fees from association owned weeks has soared from \$245 to \$593 resulting in a cost increase of \$348 per unit week. As you can see, the problem of owner shrinkage results in almost all of the increase in maintenance fees for 2023 and it is the largest any of us have ever seen. We do not expect this trend to change.

President Dan Krueger asked for a motion to adopt the 2023 operating budget. Jane Mack made the motion, with John Hanson seconding. The motion passed unanimously.

With no further business Kris Strnad made a motion to adjourn the meeting, with Ray Mack seconding. The motion passed unanimously. The raffle followed adjournment.

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