

**Lake Forest Resort & Club Condominium Association  
Board of Directors Meeting  
April 7, 2022**

Dan Krueger called the meeting to order at 9:02 am. Present were Dan Krueger, Curt Knapp, Jay Walt, Laurie McWard, George Swierczynski, and Michael Schultz. After a quorum was established, Dan asked if there were any additions to the agenda. With no additions, Jay moved to approve the agenda, with Laurie seconding, and the motion passed unanimously. Dan noted that no visitors were in attendance.

**Secretary's Report**

The minutes from the December 2021 board meeting were reviewed. Laurie moved to approve the minutes, with George seconding, and the motion passed unanimously. There was no correspondence to share, and no other business to report.

**President's Report**

I'm happy to report that Lake Forest Resort will begin this spring season without the challenges we faced a year ago. We are back to providing a full 7-day week vacation for everyone, as opposed to a 6-day week for summer owners last year. With the new staggered check-in schedule, we are not struggling to find housekeepers as compared to before. We now only need around half the number of housekeepers. In hindsight, it's a solution that should have been implemented years ago.

**Owner Shrinkage**

So far this year (through mid-April) we've had 20 weeks deeded back to the Association. This is from a combination of some low-season owners not using their weeks, for some it's a matter of affordability, and there have been some mortalities. We currently have 40 weeks that are delinquent in paying their maintenance fee. Historically, this is higher than usual at this time of year, but not entirely unexpected. Of these 40 weeks, Sue estimates that about 25 or so will pay their fees or get on a payment plan. I anticipate by year-end we'll have another 10 – 20 weeks deeded back from those presently delinquent.

In November of last year – when we proposed the budget, we estimated that we would see about 80 weeks deeded back in 2022 – primarily due to the substantial fee increase. This anticipated loss of revenue was figured into the budget. Given that we are likely to see only 40 weeks deeded back for 2022 means better than expected revenue for this year.

On a sidenote, for each week that is deeded back it raises the maintenance fee by about \$1.25 for the remaining owners. So, if 40 weeks are deeded back this year, this alone will have an impact of increasing the maintenance fee by about \$60/week for 2023.

**Impacts of Inflation**

With inflation over 8% as of April 2022, we're experiencing increases in the cost of all things budgeted for. We budgeted for a 5% increase for 2022. However, we also budgeted for additional monies in our operating contingency line item to help offset these potential spikes in expenses. So, our financial position should not be jeopardized by this. Next year is another matter. We'll have to see where inflation goes from here. If it remains constant at 8%, this will play a substantial role in the maintenance fee increasing for 2023. For example, an 8% increase in the cost of things would result in about a \$60 increase in the maintenance fee ( $791 \times 8\% = \$63$ ).

**New Furnaces (Boilers)**

Each condo building contains 2 boilers. Two years ago, we had to replace one boiler. The contractor we had at that time told us then that the others will need to be replaced soon. After having the entire system

inspected this April, it was highly recommended by the new HVAC contractor we work with currently that we replace the other 5 units now. Bear in mind that these 5 boilers are over 27 years old – well past their life expectancy.

Fortunately, the board anticipated this expense and had set aside enough money to cover this \$60,000 expense with the \$65,000 contribution into the Asset Reserve Fund from some of the excess cash the Association had at the end of 2021. While no one sees the upgrade visibly, like a paved parking lot, this improvement is critical to our continuation.

### **Unit 101 Remodeled**

This last December Unit 101 experienced a burst pipe in the wall of the master bedroom. This caused water damage to the bedroom and the downstairs ceiling, walls, and floor. Fortunately, this \$70,000 expense was covered by insurance.

Since the living room area was pretty much gutted to be redone, Sue suggested and the board decided to have the stairs redone as well. Each step is now 2” deeper making the pitch less steep as well. Making the steps easier to go up and down will be a big improvement. The completion of the remodel should be finished by June 1.

After discussing the upgrade to the stairs with Sue, I am suggesting to the board that we consider upgrading the stairs in the other units over the next 3 years. From the contractor’s cost figures on changing the stairs in Unit 101, Sue and I estimate the cost to be about \$7,000 per unit (about \$60,000 per building). I believe making this improvement to the units will have the greatest impact to increasing owner satisfaction and the rentability of the units – both necessary for the long-term continuation of the resort.

We have more than enough money in the Asset Reserve Fund to start this project. Of course, we’ll have to budget for replenishing the Asset Reserve Fund for future expenditures (i.e., the roofs, carpets, etc.) over the next 7-10 years. This way the increase of future maintenance fees won’t be as much – maybe only adding \$40/week for this 3-year renovation project. We just need to replenish the money in time for the future planned necessary asset expenses.

### **Longevity of Lake Forest Resort**

Over the past few years, the board has had uncertainty about the resort being viable in the future due to owner shrinkage. Bottom line: the more owners that deed back their weeks, the higher the maintenance fee will be for the remaining owners. One could say there might be a “tipping point” at which it becomes unaffordable for most owners. If Treehouse Village is any indication of this, it may be true... their fee was \$1000/week last year.

The bigger question is when the resort reaches this fee amount, will there be enough owners and renters to cover expenses? At this moment in time, it’s too hard to know with any certainty. Who knows, we may be financially viable when the fee exceeds \$1000/wk. After all, lakefront units similar in quality and size rent for more than that now on VRBO (\$1100/week and up). The point is, we can’t say with certainty if we will ever become unable to operate due to financial challenges in the future. But, if we’re going to have any chance at making it for the long term, then we must go “all in” regarding improvements and maintenance. That’s why investing in the new boilers and upgraded stairways need to be done. Sure, it will mean higher fees in the years to come. But, with continued owner shrinkage and high inflation, it’ll mean fees will go up anyway. I know these factors will make it unaffordable for some. But that’s beyond our control if we hope to see Lake Forest Resort continue beyond the next couple of years.

Having said that, we still need to be responsible and prepared for the possibility of not being able to operate. That means we need to continue researching how that process works and what is required legally to wind things up if that day ever comes. While I am confident that we are likely to continue for at least the next several years, things could change quickly. We must be prepared if they do.

Finally, I want to be transparent even though facing the reality of a substantial increase in fees for 2023 and beyond might cause an uneasiness among some owners. It's my philosophy that people should be aware of the facts of the matter. And, while I don't have a crystal ball to know what will happen, I am hopeful that the resort will continue long term. It just comes down to how much people are willing to pay for their week and whether we can rent out enough of the shoulder and low season to cover the expenses. And that, no one knows for sure.

## **Finance**

- Due to the earlier than usual board meeting, some 2022 reports are not yet ready. The closing out of financial year 2021 must be completed before we begin reporting on 2022. The 2021 compilation was just completed this week. We will be getting the first quarter 2022 reports soon.
- Reviewed a draft of the 1st quarter Profit & Loss Performance. At this time, we have a draft is all that is available. Income was slightly below budget with maintenance fee collections below budget while rental income was over budget. Expenses were well under budget through 1st quarter resulting in a good financial position overall for the first quarter. However, the trend in declining maintenance fees continues to be an issue.
- Cash flow for the first quarter is not yet available.
- Operating checking account register has not yet been reviewed, but should be by end of month.
- Bank Balances as of March 31, 2022
  - Asset Reserve CD #2: \$64,401.02
  - Asset Reserve CD #1: \$78,287.80
  - Operating Checking: \$65,343.04
  - Rental Trust Checking: \$52,796.84
  - Asset Checking: \$32,111.95
  - Prepaid Maintenance Fees: -\$20.71
  - Asset Reserve Money Market: \$73,505.19
  - Operating Money Market: \$401,402.45
- Reviewed the Accountant Compilation Report for 2021 and noted no issues. Reviewed Tax Returns for 2021. Although we had a net loss for the year for federal income tax purposes, the Wisconsin tax law considers increases in our reserve funds as taxable income. Due to a significant increase in our Asset Reserves, we were left with tax due of \$7,553 to the state. .
- The audit for the Lake Forest Resort & Club finances that was scheduled to begin in May 2020, has consistently been delayed through no fault of our staff, board, or current accountant. The CPA conducting the audit has had a personal tragedy, but is also very slow to respond and review. We just this week received a draft of the final audit. No issues have been raised in this audit and we anticipate receiving the final version very soon. It will be shared with board members once received.

## **Resort Manager**

The rental program continues to thrive despite the 2-year impact of the pandemic and the 6-day weeks last summer.

Maintenance Fee Collections: As of 3.31.22 outstanding fees were at 38.25% as compared to 34.69% on 3.31.21. There are 42 owners who've paid nothing so far this year as compared to 27 last year. Collection proceedings will start in May. Forty nine owners are still on a payment plan for 2022 for an approximate total due of \$36,000.

The association currently owns 359 weeks which is 30% of the 1154 total weeks.

There are currently 42 non-judicial foreclosures pending and we expect to have them all complete this year. By year end we'll most likely have a handful more to start as we have to wait until owners are 3-years delinquent in their fees.

So far this year 15 weeks have been returned via deedback with 10 more pending. I am noticing a trend of more shoulder season weeks being returned which we predicted would happen due to owner's aging issues.

Annual Maintenance in all condos is complete and spring cleaning is on schedule and should be complete by the end of April.

Personnel: Maddie is coming back this summer to work in the front office. Scott and John are working well together in maintenance. Housekeeping is fully staffed at the moment and summer staffing is looking good.

Condo 101 Update: Demo was complete in late December. Construction and drywall are complete and painting is almost finished. New flooring goes in on the 13<sup>th</sup> and 14<sup>th</sup>. Our guys will move the furniture back in on the 15<sup>th</sup> and the new beds will arrive that same day. An interior designer from Northwoods Furniture is coming 4/19 to hang the new wall art.

New dock: As soon as the ice is out on the lake Rob from Boat Sport Marina will come by and inspect the area we'd like the new dock installed at.

Wi-Fi Project: After six months of waiting, Frontier finally came out to install the 6 modems needed for our upgrade. I had to work closely with their team to figure out the logistics and even then it took two guys three full days to complete. Kozar Technologies is now schedule to complete their work in May. The system will have the capability to create 6 groups (networks) that the guests can use. These groups will have the bandwidth capped to discourage any abuse.

Feeding the Deer: I've made new signage for the condo refrigerators and will put animal waste bags in each kitchen drawer.

Pre-Paid Maintenance Fee's: The final transfer of fees on hand, \$33,563, was made on 2/3 and the account was closed. Deedback fees are now applied directly to one of the association maintenance fee accounts.

Signage: Our signage is getting updated which includes the one on Eagle Waters Rd, our Entrance sign and the one in front of the resort center lodge. The word - & Club - will be removed and the logo updated.

Owner Newsletter: As soon as the December Board and Owner's meeting minutes are uploaded to the website I'll be putting together an E-Newsletter.

### **Asset Replacement/Reserve**

Some of our scheduled projects for 2021 were pushed to 2022 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.

From 2021, we have moved forward following asset replacements:

- Building washing & staining of 101-108 was delayed from 2020 and will be delayed again due to weather and labor shortage.
- Building washing & staining of 117-124 is scheduled after 101-108, so this is also delayed until at least 2022.
- 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 soon rather than just the panes.
- Upgraded broadband has been delayed, but appears to have finally picked up some traction. Frontier has finally installed the modems needed for the upgrade, so we are waiting for Kozar Technologies to get us scheduled. Hopefully, this can occur in April.

Status of new projects planned for 2022:

- Boiler replacement – it appears we will need one in 101-108. Currently seeking bids.
- Remodeling of basement into a game room has been postponed. Water issues in the basement and other priorities will cause this to be delayed.
- All units now have new Weber grills
- A down payment was made on a new U-dock next to the one at 117-124. Awaiting an inspection before further progress can be made.
- New front entry decks for 101 and 102 are planned by the carpentry carpenter working on the repair/remodel of unit 101 from weather damage. The decks will be completed after the repair-remodel and is dependent on weather.
- \$8500 has been transferred to our Asset Reserve Fund..

Budget for asset replacements will be updated as projects are completed and paid.

### **Longevity**

Discussion ensued regarding the proposed Declaration of Condominium 7th amendment regarding staggered check-ins. It was agreed that the amendment looks good as written and will be presented for a vote by the owners.

Discussion ensued regarding the proposed by-law amendment regarding Article II, Section 7. It was agreed that the amendment looks good as written and will be presented for a vote by the owners.

George moved to retain Pinkert Law Firm as our legal counsel, with Laurie seconding. The motion passed unanimously.

### **Personnel and Policy**

Laurie reported that everything is stable regarding personnel. No items to report regarding policy.

### **Other Business**

Jay moved that we continue with the stairway renovations for 102 - 108 (one building) with the intent of completing the other two buildings in the coming years. George seconded. The motion passed.

With no further business, Laurie moved to adjourn the meeting, with Jay seconding. The motion passed unanimously and the meeting adjourned at 2:20 PM.

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