

**Lake Forest Resort & Club Condominium Association
Board of Directors Meeting
September 15, 2022**

Dan called the meeting to order at 9:04am. Established a quorum. Present were Dan Krueger, Tim Mikel, Michael Schultz, Laurie McWard, Curt Knapp, and Jay Walt. George Swierczynski was absent. After a quorum was established, Dan asked if there were any additions to the agenda. With no additions, Jay motioned 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 April 2022 board meeting were reviewed and a change was made on page 3, corrected 3% to 30%. Jay moved to approve the minutes with the change, and Curt seconded. The motion passed unanimously. Correspondence was shared from Minna Smith and Dorothy Deer, both thanking the board for their hard work.

President's Report

As we look ahead to our 2023 plan and budget, I believe Lake Forest is poised to face the challenges ahead. Like the past few years, there have been some big challenges that we've had to deal with this year. Instead of labor related issues, these challenges have been economic in nature, namely the spike in inflationary costs and a higher than normal number of delinquent owners on their maintenance fee payments.

Fortunately, we anticipated these things and budgeted for a larger operating contingency amount in our budget to provide a buffer for higher expenses due to inflation spikes and shortfalls in revenue due to increased delinquent payments. As a result, we are on target to meet our budget for 2022.

As we plan for the 2023 budget these same challenges will be at the forefront of our discussion. Inflation may rollercoaster a bit month by month, but over the next year I believe it will have a substantial impact on our future expenses. Also, as the maintenance fee continues to increase, we know that more owners will deed back their weeks and delinquent payments will again be substantial. So, we need to factor this in.

To avoid our owners being surprised with "sticker shock" when they receive the proposed budget at the end of next month, I asked Sue to include a recap of my April board meeting President's message with the summer newsletter to owners. In that message I pointed out the causes for anticipated 2023 maintenance fee increases that will total roughly \$150 - \$200. This newsletter is normally sent out via email only. But I asked Sue to mail it out snail-mail as well because a lot of email goes unopened. As a result, we've had a few more people contact Sue about deeding back their weeks. However, these have been within the range we have estimated for the year and more importantly, gives us a basis upon which to plan for 2023 regarding deed-backs. I believe that only by keeping the owners informed about these challenges are we able to have confidence in our budget planning process. That said, I also know the future is never totally certain. There's always the possibility of unplanned or unforeseen conditions that can disrupt things.

Owner Shrinkage

So far this year (through mid-September) we've had 69 weeks deeded back (or in the process of deeding back) to the Association. Most of these were from low season owners. To put that in perspective I want everyone to know where we stand with the number of owners in good standing that own weeks in both the low and shoulder seasons. The low season consists of 648 total owner-weeks (27 weeks x 24 units). Of these, there are about 280 owner-weeks in good standing going into 2023. The rest are owned by the

Association. Shoulder season (spring & fall) consists of 288 total owner-weeks (12 weeks x 24 units). Of these, there are presently 210 owner-weeks in good standing going into 2023.

I know it's a lot of numbers, but my hope is this information will give you a sense of the relevance of the number of weeks being deeded back each year. Also know that no summer weeks are being deeded back. These are in high demand. It was only five to 10 years ago that we were experiencing 12-15 weeks being deeded back each year. And these were primarily due to mortality or health issues preventing use of their week. Since then, the number of weeks being deeded back has ranged from 20 to over 60 per year. These have all been low and shoulder season owner-weeks.

As we work through the final numbers for the 2023 budget, we're anticipating about 80 – 90 weeks coming back to the Association for 2022. So, presently we are in that range. We are also budgeting a substantial amount for the Operating Contingency line item in the budget to help offset an increase in delinquent owner payments in 2023. In 2022 the line item was set at \$50,000 and was mostly absorbed by the spike in costs due to inflation. For 2023 I'm suggesting that the board sets that amount at \$65,000 for continued inflationary spikes and delinquencies.

Resales of Timeshare Weeks

With the increase in the number of weeks being deeded back to the Association, some owners have raised the question of timeshare resales. This has been a topic the board has discussed over the years, and I thought it would be appropriate to share our findings and perspectives.

Low and Shoulder Season weeks are not a destination draw. Other than snowmobiling and skiing, there's really nothing that will attract large numbers of people. That's why most of the restaurants shut down during this slow time. And historical trends have shown that nearly no one rents or stays for the full week – long weekends only.

The school year determines vacations for many people. Parents aren't going to pull kids out of school to take a vacation...especially up north during the winter. Even destinations in Florida suffer during the school year. I remember staying in Daytona during January, and Renee and I went to this gigantic bar right on Daytona Beach – to watch the Packer playoff game. We were literally the only ones in the bar. Farve had a great game and the Packers won! Go Pack! I digress. But the point is that parents aren't vacationing during this time of year...anywhere. So, it is highly unlikely that they're going to want to buy a week during the school year.

*Rentals during Spring & Fall are good, but only for weekends or a few days at a time....*not many full week rentals. These rentals rarely include children for the previous reason. So, it's usually an older couple or single person looking to do some fishing or seeing the fall colors and hiking, etc. Rarely do they rent a full week. Our owners do spend the full week like I do in May. But not renters. They come and go. So, the likelihood of getting someone to take over a week during this time is very limited to single people or empty nesters that appreciate the fishing or other outdoor activities during these time periods.

Fixed Week Timeshare is an outdated product. With the internet (VRBO, Air B&B, Craigslist, etc.) people have unlimited options. Not like years ago. There's lots more inventory with people renting out their homes too. Overall, the internet gives people easy access to many options. People just whip out their phone like a six-gun and look up a place to go in seconds. There's a plethora of options available to them. As my 38-year-old son says, "Why would anyone want to commit to a full week every year at the same place?" That's the new trend, especially among people under 50. By the way, he loves the Lake Forest experience for the few times he's been up there.

The lack of resales of the low and shoulder season weeks is a problem not unique to Lake Forest. All resorts that are not a year-round destination (like Disney or Vegas) are having the same issue of owner-shrinkage and few resales. Some have other revenue sources, such as a restaurant, to help with getting through the low season, but we don't. As most of our owners know, it's a ghost town in Eagle River from October through May.

However, I do want to let everyone know that of the more than 400 low and shoulder season owner-weeks held by the Association, these are available to anyone for free. We only require a \$150 paperwork fee to handle the transfer of the deed. *To all the owners that want to do what they can to help keep the maintenance fee in check, I urge you to acquire a free low or shoulder season week – either to use yourself for trading or to gift to a family member.* Hypothetically, if for every summer week owned (about 300), there were 300 low-season weeks acquired...this would reduce the maintenance fee by about \$300 for next year!!! Imagine that!

Future Asset Improvements

Given the substantial increase in the maintenance fee, we need to consider the expenses for asset repairs, replacements, and improvements. Reducing these costs as much as reasonably possible is paramount to mitigating the rise in the maintenance fee. I do want to point out that we have about \$160,000 in Asset Reserve Funds. These monies set aside can only be used for future repairs and replacement (e.g., the roofs, carpets, beds, etc.). This is something that the board constantly evaluates regarding holding funds for the future versus spending the money sooner. It's a tricky balance, and we want to be sure we have enough to do necessary projects as they arise in the future.

Longevity of Lake Forest Resort – Looking Ahead

These are changing times. When you think about it, we've persevered through a global pandemic while many businesses have closed; we've had threatening labor shortages; now we face inflation rates that are 40-year highs. And if that wasn't enough, we have an aging owner-base with an average age over 70 with the next generation not wanting to commit to timeshare... And through it all, we've been able to maintain the quality of the resort and our staff. We've kept the fee at a level that is substantially lower than competitor rates – just check out the rates on VRBO. You'll find that we are usually up to 40% lower in fees.

The full board knows that while we are going to have a substantial increase in the maintenance fee, it is still a great value. And, like price increases everywhere, we are not the only ones. Sure, some people will be disappointed. And yes, some will feel they have to end their Lake Forest experience. I get it. The board gets it. It's not what we want. But it's the reality of where our economy and where our resort is at. That said, we are confident that we'll weather through these challenges and continue to provide an outstanding vacation experience to our owners and renters.

Finance

Reviewed Profit & Loss Performance through July 31, 2022. Income is trending to meet budget for the year. Expenses were also on target for budget through July 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.

Year-end outlook projects to be very near a balanced budget for the year. 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 unlikely that we will have excess cash as we have had the past couple years. Thus, it is unlikely there will be anything available to offset the expected jump in maintenance fees due to inflation, cost of labor increases, and increasing bad debt due to deedbacks and delinquencies.

Cash flow through July 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.

Operating checking account register for the months of April to July 2022 reviewed and approved.

As of July 31, 2021, the resort has the following bank balances:

Asset Reserve CD 1	\$78,287.80	
Asset Reserve CD 2	\$64,401.02	
Asset Checking	\$52,821.36	
Operating Checking	\$38,973.85	
Operating Money Market	\$251,478.73	
Rental Trust Checking	\$68,062.86	
Pre-Paid Maintenance Fee's from deed backs		Account closed. Funds were moved to operating account.

We have been informed that the audit of the Lake Forest Resort & Club finances for 2020 is complete and we are waiting on the final report from the auditor. The last audit was completed 6 years ago.

Resort Manager

The new 7th Amendment and other change to our existing by-laws did pass earlier this summer. We needed 710 weeks to vote yes and we had 833. The board president and vice president have had their signatures notarized on the Amendment and it will be recorded with the county and made part of our Condominium Disclosure Materials.

Maintenance Fee Collections: As of 9.10.22 outstanding fees were at 31.45% as compared to 25.57% on 8.31.21. There are 19 owners who've paid nothing so far this year and are now in collection proceedings. Twenty three owners are still on a payment plan for 2022 for an approximate total due of \$10,685.

The association currently owns 390 weeks which is 34% of the 1154 total weeks. By year end we anticipate the association will own 520 weeks (this includes the pending NJF's, new delinquents, pending deedbacks and expected additional deedbacks) which will be 45% of the total weeks. You, our current owners, are our biggest marketing tool. All of the weeks being deeded back are between October – early May. We encourage you to take an additional week or gift one for Christmas in an effort to extend the life span of the timeshare structure at the resort.

There are currently 42 non-judicial foreclosures pending and we have them scheduled for 10.19.22.

We are seeing more electric cars arrive at the resort using our electric utility for charging. After looking at the cost per week/per vehicle – anywhere from \$10 to \$15 – it was decided we would not charge extra for this amenity but instead absorb the cost as part of the maintenance fee (for owners) and rental fee (for renters).

We are entering into a barter agreement with a blogger – Life in Wisconsin. We will barter for social media and promotion services for her to stay at the resort in exchange.

This fall all of our bed sheets and top sheets will be getting replaced with new. They are currently on a 3-year replacement cycle.

We are happy to report that with our maintenance department fully staffed – two part time guys – we are getting caught up on years of deferred maintenance. Some of projects completed include: painting of the building shutters, painting all the light posts, staining the bike shed, fish shack and storage shed and benches at the campfire circle, clearing of trees in front of 113-116, clearing of trees in front of the playground and to the side of the pickle ball court, power washing all the park benches around the property and getting the maintenance shop/garage cleaned up and supplies inventoried.

For those of you not aware and/or familiar with 'The Legacy Program', the association created this to assist owners in understanding available options for when the times comes that they need to transition away from vacation ownership. We work directly with you and help you understand the resale market and discuss your options which include: putting your week up for resale, transferring your ownership to a family member or friend or deeding your week/s back to the association. For more information on this program please contact myself at 715.479.2455 or vacation@lakeforestresort.com.

Are you a member of Interval International or RCI? Do you need an extra week for trading purposes? We are now running a promotion for our owners. Pick up an extra week for trading for just \$400! Give me a call and we will make those arrangements for you!

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 partially completed and will be prioritized in our 2023 asset replacement schedule. We are hoping this could get done in the Fall of 2022.
- Building washing & staining of 117-124 is scheduled after 101-108, so this is also delayed until 2023. May also potentially get done in Fall 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 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 fund 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 and 102 will be moved to 2023 Asset Replacements.
- Patio furniture and TV's 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 Building Washing & Staining, 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). Projects planned for 2023:

- 109-116 Guest Bedroom window replacement
- Upper level entry decks for 101-102 and 103-104
- Replacements, as needed, for kitchen table sets, patio furniture, condo furniture, kitchen appliances, and televisions.
- Potential for some carryover of building washing and staining if weather or other issues delay completion in fall 2022.

Longevity

Escalating maintenance fees due to owner shrinkage and inflation is a significant concern which could threaten the longevity of the timeshare association. The fear is that the fee could trigger further reduction in owners which, in turn, increases the maintenance fee more. The fee could quickly reach a point where owners no longer find value as a timeshare.

Owner shrinkage is increasing at a quicker rate than anticipated. Factors that influence this include:

- Aging owners no longer traveling or passing away with no new owner to take the week(s).
- Potential new owners have no interest in non-prime weeks (fall, winter, spring)
- Fixed week timeshare ownership is not appealing to younger generations.
- Competition for vacation travel due to easy access, variety of locations and accommodations, and flexibility from companies such as VRBO, AirBNB, Hotels.com, etc.
- Rapidly increasing maintenance fees.

To repeat what President Dan Krueger reported: “However, I do want to let everyone know that of the more than 400 low and shoulder season owner-weeks held by the Association, these are available to anyone for free. We only require a \$150 paperwork fee to handle the transfer of the deed. *To all the owners that want to do what they can to help keep the maintenance fee in check, I urge you to acquire a free low or shoulder season week – either to use yourself for trading or to gift to a family member.* Hypothetically, if for every summer week owned (about 300), there were 300 low-season weeks acquired...this would reduce the maintenance fee by about \$300 for next year!!! Imagine that!”

Personnel and Policy

Laurie McWard reported that all Personnel positions are stable at this time. House Keeping and Maintenance staff were interviewed in July to check in on behalf of the Board and seek input from the staff. All staff seemed to be working well together and the staggered check in has been excellent, especially for housekeeping.

Resort Manager Appraisal – Input was received from Board Members and Sue’s Evaluation was reviewed. Laurie explained the process which includes the review of goals by Board Members and progress. In addition, input is received and noted from Staff and owners. Sue accomplished all the goals set forth and was thanked for her excellent work, dedication and continued service to Lake Forest Resort and Club.

Transition – This topic was of concern to Board Members, so Laurie asked Sue to speak to her anticipated longevity and suggestions for transition in the future. A summary of what Sue shared is simply, “I am in this for the long-haul, barring any unforeseen life changes.” She did discuss important information in case of any

emergencies and shared these with the Board. She did acknowledge that if we get to a point of transition, that hiring and providing time for a new manager to work with her for a period of time for training would be ideal.

Other Business – Policies implemented after approval by the owners are going well. There may be other policy changes needed in the future depending on the rate of deed backs.

Other Business

A letter from summer owner Celeste Arnold was shared with the board and discussion ensued on our growing deer population. The sign on the condo refrigerators will be updating asking owners and guests to please not feed the deer.

Curt Knapp has announced he will be resigning after the annual meeting this coming December. Curt has dedicated 8 years to the Lake Forest Resort Board of Directors and we thank him for his service and wish him well in his new volunteer role with The Gideons International. Owner Ross Radandt will be appointed to fill Curt's remaining year after the Annual Owner's Meeting on Saturday 12/3.

With no further business, Curt moved to adjourn the meeting, with Mike seconding. The motion passed unanimously and the meeting adjourned at 2:55PM.

Published for review: 9.27.22

Approved: (pending Dec. board meeting)