

Lake Forest Resort & Club Condominium Association
Board of Director's Meeting
September 19 & 20, 2019

Board President Dan Krueger called the meeting to order on Thursday 9/20 at 9am. Those present were Tim Mikel, Laurie McWard, Dennis Breidenbach, and Curt Knapp. Absent were Renee Backus and Secretary Michael Schultz. Vice President Tim Mikel was appointed as secretary for this meeting. Once the quorum was established, Tim moved to approve the agenda. Laurie seconded and the motion passed unanimously. Resort Manager Sue Couture was also in attendance. With no visitors, the agenda proceeded.

Secretary's Report

The minutes from the April 25, 2019 board meeting were reviewed. Several edits were made and Dennis made a motion to approve the minutes. Laurie seconded and the motion was passed. They will be made available for viewing on the website.

There were three letters to the board of directors which were read. Those were from owners Kathy Budnik, Francis & Nancy Deaner and John & Denise O'Meara.

President's Report

As I mentioned in our spring meeting, we are seeing the reality of the increase in the number of weeks being deeded back. Last year, we had 12 weeks deeded back. So far, this year we have recorded 27 deed-backs with about 10 more pending. That's a massive increase and certainly will have a substantial impact on the increase in fees for the remaining owners. In fact, at this time, for every week that is deeded back, we can anticipate an increase in maintenance fees of about \$1/wk – mainly because the weeks being deeded back are low or shoulder season weeks. And, this factors in rental income for some of these weeks.

Budgeting for 2020: During the past four years we've put our focus on making significant capital improvements that the owners can enjoy. Most of the planned big improvements have been accomplished as planned. This was based on a 7-year forward-looking view of asset replacement. As we enter the phase of increased deed-backs (as we planned for), we need to give special attention to defining a detailed plan for asset repair and replacement for the next 3 years (2020 thru 2022). This also considers how much we should plan for accumulating in the Asset Reserve Fund for the future years. While we continue to have a 7-year budget projection, it's hard to plan with specificity for year 4 and beyond. Our goal will be to keep fees as reasonable as possible and the condition of the resort top-notch – continuing to meet or exceed owner satisfaction. With our board's experience and knowledge of all the issues we've been discussing these past 4 years, I'm confident we will come up with the best asset repair and replacement plan possible to accomplish our goals.

Proposed Sixth Amendment and existing Bylaw Amendment: I'm pleased to announce that both changes we proposed have passed. There's been wide acceptance and approval of these changes with few

dissenters. Both Sue and I have had many discussions with owners regarding the meaning of re-purposing 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. Since many owners were surprised that we even had a future problem looming, I anticipate a higher than average showing at the annual meeting to further discuss and get clarity on the board’s plan for the resort going forward – both in re-purposing and future budget expectations. I believe we need to be prepared to have an open and transparent discussion. This is good. We need our owners to know what’s happening and to share how we are planning for the future. Some dissenters may attend and express their frustration too. This is okay. So, we as the board should be prepared to give reasonable answers and keep order to the meeting.

Friday Check-in: We conducted an owner survey about changing from Saturday check-in to Friday check-in for the shoulder and low seasons back in 2016. Our goal was to create more opportunities for rental income. The fact is that most people that come during those 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. 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. This change presents an increase in revenue potential which we need to help offset lost fees due to owner shrinkage. 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.

Great Financial Health: While much of the discussion that the board has during meetings is about the challenges we face in the future; the good news is that we are presently in very good financial health. The condition of our resort is in great shape. We have no debt. We have 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.

Finance

Bank Balances as of August 31, 2019:

- Asset Reserve CD \$74,500.00
- Asset Reserve Money Market \$15,695.17
- Asset Checking \$1,094.97
- Operating Checking \$44,569.53
- Operating Money Market \$154,875.49
- Rental Trust Checking \$58,455.33
- Pre-Paid Maintenance Fee's from deed backs \$46,983.74

The operating checking account registers for April, May, June, July and August 2019 were reviewed, approved, and all board members signed off.

The budget performance is on target to meet projections for income and expenses for 2019. A possible positive cash flow may be realized in Dec. and those funds would be used for upgrades which have been scheduled for 2020.

There are \$74,500 of asset reserve funds in a CD which will mature in November. At that time, those funds will be moved to a new CD.

Dennis made a motion that in addition to the Annual Accountant's Compilation Report the board will budget for an audit to be performed in 2021. Laurie seconded and the motion passed unanimously.

Resort Manager

Rental Program: A healthy rental program is vital to offset the loss of maintenance fees from owner shrinkage. We're happy to report that this year is on track to be our highest grossing ever. As of 8/31 we are up over \$22,000 from this same time last year. We've had 97 repeat renters either call direct or book their next trip before departing from a current stay, 51 new renters who called us direct after finding the resort on an internet search or from a referral, 45 new renters that booked through online travel agencies, 44 owners who rented for themselves or family and 15 new and 6 repeat renters who booked through our website booking engine.

Newly Delinquent Owners: Eight newly delinquent owners have paid nothing towards their maintenance fees so far this year and are now in collection proceedings.

Non-Judicial Foreclosures: So far this year we've completed four and have 13 pending. We have 61 more to complete over the next few years. These consist of defunct timeshare transfer companies, deceased owners and longtime (over 10 years) delinquent owners.

Maintenance Fee Payments Plans: There are thirty three weeks still on a payment plan for 2019.

Owner mortality: So far this year five weeks have been absorbed back due to owner mortality and have five more pending.

Deed Backs: Circumstances leading to owners deeding back their week/s include: non-use due to age, illness or moving out of state. To date, we've completed twenty seven deed backs and have ten additional pending.

Asset Replacement/Reserve

2019 Asset Replacements completed on budget. This included new toilets and vanity tops in all units, replacing the retaining wall behind the Resort Center, completing the cycle for new kitchen appliances and upholstered furniture, and continuing with paneling removal and adding microwaves shelves and new microwave ovens.

A tentative budget of \$116,500 for 2020 Asset Replacement and Reserve was discussed. Potential projects include a new U-Dock near the bridge, asphalt repair, washing and staining 117-124 building, and increasing the Wi-Fi bandwidth. Several window, door, and countertop replacements were also included.

There is a possibility of some positive cash flow at the end of 2019 due to rental income exceeding budget. If this is realized, the board discussed using these funds for planned future asset replacements to save on income tax and also reduce expenses for asset replacement to help slow the escalating maintenance fee. Potential projects include accelerating the replacement of living room televisions and getting countertops complete prior to 2020.

The meeting was recessed at 4:10pm on Thursday 9/19.

The meeting was reconvened on Friday 9/20 at 9:00am.

Personnel and Policy

Personnel: Sue Couture reviewed the status of the resort personnel. While the labor market still is suffering a shortage, we made it through the summer months with the help and cooperation of the owners and hard work of our staff! The Board thanks the staff for their outstanding extra efforts to make everything run smoothly. We also thank the owners for their wonderful help and understanding with the situation.

The Board also reviewed the evaluation of Sue Couture. Sue accomplished and excelled in all goal areas that were jointly set by the Board and Sue. She exceeded expectations in her performance. The Board communicated that they are extremely pleased with all of her efforts to continue the excellence at Lake Forest Resort and Club and especially with her leadership, attention to budget, communication with the owners and guests and the excellent use of online marketing of the Resort which resulted in an increase in rental income.

Policy: The Board reviewed recommended changes to the “Rules and Regulations, Board of Directors Polices” which were last reviewed in 2016.

Numerous updated changes were made to the “Board of Director Policies” to clarify and reflect accuracy. Tim moved to accept to accept the changes, Curt seconded and the motion passed. The updated policy manual is available for viewing on the website.

One update was suggested to the Employee Manual. Tim moved to accept the update, Curt seconded and the motion passed.

Longevity

The board has sought input from industry experts regarding the future of our resort given our current circumstances. We have received confirmation that our management, staff, and board are doing all the best practices that should be done. We are taking the right steps according to the Timeshare Board Member Association, ARDA, Lemonjuice Capital, and others.

A particularly beneficial meeting was held with principles at Lemonjuice Capital and Shep Altshuler (Timesharing Today and TBMA). They confirmed our current direction and actions are appropriate and provided advice. The board has discussed and is following this advice.

Our game plan for the future of the resort was updated to include conducting a survey of owner perspective on the resort and their ownership, property valuation analysis, keeping open communication with Lemonjuice Capital, research funding strategies for Longevity activities, and developing an updated asset planning schedule.

The board reviewed the voting on the Proposed Sixth Amendment and changes to an existing By Law Amendment. In order to pass, 67% of the owner paying weeks need to vote yes. Taking the 1154 total weeks and subtracting delinquents, pending deed backs, weeks on a payment plan and the association owned weeks it was determined that 793 owner paying weeks could vote. In order for each to pass, 531 owner paying weeks were needed to vote yes.

A tally of the votes was taken today and 558 (70.3%) voted yes to pass the Sixth Amendment and 556 (70.1%) voted yes to change the existing By Law Amendment.

The board made the decision not to vote the Association owned weeks for the By-law change and Sixth amendment because the board chose to leave these significant changes up to owners in good standing only.

The board ratified the Sixth Amendment and it will be forwarded to the Vilas County Register of Deeds office for recording. The Condominium Disclosure Materials will then be updated and made available on the website.

Finance

The board reviewed increases in operating costs, resort upgrades and shrinkage in ownership maintenance fees while developing the 2020 budget. A tentative budget has been prepared and the final budget will be provided in the Annual Call to Meeting newsletter and then voted on, by owners, at the annual meeting in December.

With no further business, Tim moved to adjourn the meeting, with Laurie seconding. The motion passed unanimously and the meeting adjourned at 10:00am.

Published for Review: 10.22.19

Approved: 12.7.19