

**Minutes of the
ANNUAL MEETING OF THE ASSOCIATION
OF APARTMENT OWNERS OF KANALOA AT KONA**

*Friday, April 27th, 2018 – 10:00am
Main Pool Lobby*

- I. **Call to Order:** Bill Lamberton, President, called the meeting to order at 10:01 a.m.
- II. **Roll Call:**
Present: Bill Dallenbach, Jerry Ernst, Bill Lamberton, George Pittman, Rex Sawyer, & Steve Tanberg. Quorum was established.
Absent: Forbes Burdette

Guests: Dean Yamamoto – VP of Finance, Violet Carlsberg – Director of Business Development, Stephen Hicks – General Manager.
- III. **Proof of Meeting:**
Bill Lamberton, President, welcomed all in attendance. He confirmed that all the members of the Association were sent written notices of the annual meeting by March 16, 2018 and a copy of that notice is in all packets presented to Owners in attendance.
- IV. **Approval of the April 26, 2017 Minutes:**
Bill Lamberton, President, asked for approval of the April 26th, 2017 minutes.
A motion was made by Diane Pittman of 3204 to approve the minutes. Karen Diepenbrock of 2701 seconded the motion. The motion carried unanimously.
- V. **Report of Officers**
a. **President's Report**
i. Bill Lamberton, President, recalled at the last Quarterly meeting, January 26th, 2018, the By Laws were approved, re-written to correspond to HI revised statute 514B. He noted there was a great effort by Steve Tanberg and the attorney to complete the task writing an "Amended and Restated Bylaws." A full report was handed out to all those in attendance to further detail the changes, as well as a copy of the founding documents and newly revised Bylaws. The Owners will be voting on the approval of the new By-Laws at the end of this meeting.
ii. Bill also noted there are new procedures for delinquencies, and on two occasions there have been over \$5,000 in costs/fees collected due to these new policies. The Association is pursuing all they are entitled to in the state statutes, in hopes to prevent the least amount of losses.
iii. The installation of the new gate is complete and working well, as is the new check-in process and systems for guests. He asked the audience of any issues experienced, and there was no response.
iv. Bill stated that the restoration of the concrete piers is mostly complete, and Owners will continue to see work on this. Painting will continue on a consistent basis as a part of the normal required upkeep. The landscape and maintenance team are doing a great job.
v. Bill asked the audience for any comments on 2017 accomplishments and progress:

1. Helen Smith of 102 asked about the Security Gate function when the power goes out and how emergency vehicles can access the property. Stephen Hicks, General Manager, responded that the Fire department has a Knox Key to access the property for any type of emergency. When the power is out, the gate defaults to open so security, guests and Owners have the ability to evacuate if necessary. There is a battery back-up system to ensure the gate has power for emergency default opening.

b. Treasurer's Report

- i. Steve Tanberg, Treasurer, reported a 2017 year-end Operating Fund Balance of \$171,876.80 and a Reserve Fund balance of \$1,358,701.06. The Special Reserve – ADA Compliance balance was \$38,456.30. The 2017 Year end Operating Fund Surplus was \$19,392.75.
- ii. Steve Tanberg referred to additional income received, detailing income from the activities desk to total \$35,000.02 for 2017. Income from the Castle Rental Program totaled \$34,375.00 for 2017. Other income accounted for \$2,236.65, including late fees and charges for lost gate passes.
- iii. The General Assessment to Operating for the 2017 year was \$1,664,745.96, and the General Assessment to Reserves was \$264,995.28.
- iv. It was noted among the favorable variances that the activity desk continues to be positive due to the contract re-negotiated by Forbes Burdette, with over \$2,000 savings. Refuse is another continuing favorability since Stephen Hicks negotiated a better contract with this vendor as well. This alone amounts to over \$26,000 in savings year to date.
- v. Water is amongst the other favorable variances, due to lower use as a result of rains earlier this year, in addition to more recent water restrictions mandated by the county.
- vi. Steve Tanberg noted that salaries for both security and maintenance were lower costs due to the inability to hire a security guard, necessitating hiring contract guards. This however, resulted in higher contract costs for watchmen. The earlier savings were offset by contract service expenses because of the desire to keep Bobbie onboard as a full-time employee. The Salaries in the Grounds Department is also a favorable variance, with a savings over \$26,000 due to having two unfilled positions in January, February, November and December.
- vii. Amongst the other favorable variances, extra effort has been made to control costs of repairs and purchases, keeping us over \$9,600 under budget this year. Similarly, pool costs are almost \$6,300 under budget, principally due to Stephen and Raul researching vendors to obtain better pricing on pool supplies.
- viii. The telephones are an unfavorable variance due to service calls on the aging telephone system and buying replacement parts. The Board is researching a more economical and up-to-date system.
- ix. Due to the fact the Association was unable to hire a security officer, another negative variance occurred as it was replaced with contract labor. This was partially offset by savings on security department salaries.
- x. Recovery work orders were a negative variance for most of the year, however late in the year temporary labor was hired to do less skilled work and staff was freed up to complete several jobs for homeowners. Steve noted that the Board is hoping more homeowners will take advantage of the talent and affordability of the property maintenance staff.

- xi. Legal fees were noted to be high due to the on-going litigation against homeowners for violations of the no-pet policy. Steve mentioned this has now ended and the Association received over \$10,000 reimbursement from the Homeowner. The Board anticipates collecting more legal fees with a more aggressive stance on collecting for delinquent homeowner assessments.
- xii. Office supplies, to include new software for Maintenance and Toshiba printer, were unfavorable variances during the 2017 year.
- xiii. Steve noted the final unfavorable variance in 2017 was related to insurance, as the Association had an increase in premiums upon policy renewal.
- xiv. Steve Tanberg reported the following unplanned capital expenses of note. The first was the community building, with \$9,586 spent to update the lobby with new furniture. He thanked Dean Hill for a job well done, the new lobby looks beautiful. The second was the HVAC system that cost \$3,833 to replace the A/C in the housekeeping building. The third was the new security system, costing \$11,868 year to date.
- xv. To conclude his 2017 report, Steve reported on delinquencies, with 7 units being over 30 days late amounting to approximately \$6,800, 4 units at 60 days late with \$4,000, 3 units are 90 days late at \$3,000, and 7 units were more than 90 days late to total \$103,983. One of the units that owed approximately \$66,446 in fees was sold. The Association took advantage of the bank selling and negotiated a payment of \$11,000 for dropping the lien. One of the delinquent units is in the rental program, so all proceeds are being withheld and applied to the outstanding balance. All delinquencies for the 2017 year totaled approximately \$117,814.89, with a doubtful account balance of \$94,081.50. The difference was \$23,733.39.
- xvi. A question was posed by Jay Newberg of 2506 in the audience, requesting that the moving forward the Board provide percentage variances to further detail both the favorable and unfavorable variances. Steve Tanberg and the Board agreed and will provide this moving forward.
- xvii. Steve Tanberg proceeded to report on the financial highlights for January 1 through March 31, 2018. The Operating Fund Balance for the first quarter of 2018 is \$181,843.08 and the Reserve Fund balance is \$1,381,761.23. The year to date Operating Fund Surplus is \$28,614.77.
- xviii. Steve Tanberg referred to additional income received, detailing income from the activities desk to total \$9,000 and income from the Castle Rental Program totaled \$8,694.00. Other income accounted for \$439.45, including late fees, interest, and charges for lost gate passes.
- xix. The General Assessment to Operating is \$430,871.61, and the General Assessment to Reserves is \$71,217.90.
- xx. Non-taxable revenue is one of the favorable variances for the first quarter of 2018. \$10,438 received due to a settlement for AOAO legal fees in litigation with a homeowner.
- xxi. Water is again a favorable variance, with lower use as a result of rains.
- xxii. Steve Tanberg noted that salaries for both security and maintenance were lower costs due to several factors: the inability to hire a security guard until late February and Grounds had a vacant position for January and February.
- xxiii. Recovery work orders was again a favorable variance as multiple owner projects were completed resulting in higher reimbursement for the Association.
- xxiv. Unfavorable variances included several maintenance and grounds-related items that were purchased in the first quarter, but will be used throughout the year, some of which will be off-set by recovery maintenance. Further, for repairs and purchases, several

expensive items were purchased for owner units. Owners will be billed for these items and other purchases made for their units, so this will be again off-set.

- xxv. Legal fees were noted to be high the first quarter of 2018 due to the legal cost of creating the new By-Laws and for a more aggressive approach to recovering past-due owner assessments. Some of these legal fees will be reimbursed by the defaulting homeowner.
- xxvi. Steve reported the following unplanned capital expenses of note. The first was a HVAC system purchased at \$8,203 after the A/C failure in the General Manager's office. In addition, almost \$9,000 has been spent year-to-date in replacing 25 concrete pillars supporting the buildings. This line item has been budgeted over 12 months and will disperse over time.
- xxvii. The last unplanned capital expense to note is the \$8,800 for a 4-WD 'Mule' to be used by the Grounds Keeping staff.
- xxviii. To conclude the first quarter 2018 report, Steve reported on delinquencies as of March 31, 2018 to have 1 unit over 30 days late amounting to approximately \$101.25, 8 units are 60 days late at \$3,823.19, 3 units are 90 days late at \$2,720.76, and 3 units are more than 90 days late to total \$42,542.26.

VI. Committee Reports

a. *Grounds and Safety: George Pittman*

- i. George Pittman reported that the palm trees will be trimmed approximately every four months. They have just recently finished the first set for this year.
- ii. The team is continuing to find and repair leaking underground pipe. These leaks are due to the aging of the underground pipe.
- iii. There are several big ongoing projects, one of them being the triangle by the adult pool. This refurbishing will take all year, as the team will be removing trees and replanting the area. It is currently not in great condition, and Owners will be pleased when it is complete.
- iv. Regarding safety, George noted that Cary in the maintenance department is re-doing all signs on property and should be completed by the end of the year.
- v. The perimeter fence around the ocean has a galvanized chain that has degraded and rusted badly over the years. The Maintenance staff is currently working on replacing it and has completed about 75% of the work. Along the way, the team is also discovering posts that have rotted and are proceeding to replace as they move along the chain fence.
- vi. George referenced Bill Lamberton's comment in his President's Report that the pier project is still underway, adding that 55 concrete piers have been completed. There were 25 more budgeted for 2018, and all were completed in the first quarter. The Board will budget for more pillars to be completed next year.
- vii. Thomas Smith of 102 asked George on the process and concern on coqui frogs found on or around property. Stephen Hicks noted the team had plans in place to remove this invasive species, stating it is a high-priority because it can negatively affect property values. George commented that the team would continue to monitor, and if any Owners ever hear the frogs, to notify Stephen and the team immediately so quick action can be taken.

b. *Investment: Rex Sawyer*

- i. Rex Sawyer noted that there will be two Investment Committee reports this meeting. The first report will be to the Association Owners for the fiscal year ending December

31, 2017. The second report will be to the Association Board for the quarter ending March 31, 2018.

- ii. The first report to the owners has the value of the Kanaloa Capital Account as of December 31, 2017 at \$1,397,157.36. This amount includes monies owed to the Reserve Account by the Operating Account of \$130,723 and accrued interest from investments of \$5,298.49. The invested amount was \$1,180,000 in 9 CDs with 8 different banks, and \$181,135.08 in the UBS government money market fund. Interest rates ranged from 1% to 1.75%.
- iii. A listing of the CDs in the reserve account on January 31, 2018 was included in all packets sent to owners with the proxy. No investment exceeded the \$250,000 FDIC insurance limit and all were government-backed. A CD with Wells Fargo had a 13-month term and matures June 11, 2018. The other CDs had 12-month terms.
- iv. Rex stated the Investment Committee is composed of Bill Lamberton and Steve Tanberg, with Rex as chairman. The investment restrictions and requirements are dictated by Hawaii Condominium Code 514B. Details of this can be found on page 77. Rex noted he had a copy present at the meeting if any Owner desires to look.
- v. The Committee has structured the investment portfolio with 12-month maturities throughout the year so that funds are available as needed either for reinvestment or to pay expenses. This allows the Committee to invest more funds at a slightly higher average investment return. The comparable returns are: government money market at 0.25%, 1.75% for 3 months, 1.9% for 6 months, and 2.15% for 12-month CDs.
- vi. Over the past few years, the Committee has owned local bank CDs, local federal credit union time certificates, brokered CDs with financial institutions with an office in the state, and government money market fund when rates here have been more favorable at that facility.
- vii. Currently the brokered CDs are providing the best return. As the Fed has been raising the funds rate, the Association has been receiving a better return. It appears that this trend will be continuing.
- viii. Rex stated this completed the first report, and unless there are any questions, he will continue with the 1st quarter report to the Board. With no questions asked, Rex proceeded.
- ix. The Kanaloa Capital Reserve Value as of the first quarter ending March 31, 2018 was \$1,422,717.52. This amount included \$51,734.51 owed to the Reserve Account by the Operating Account and accrued interest from investments of \$5,298.49 in the Reserve Account. These investments currently include 10 CDs in 9 different banks totaling \$1,330,000, and \$35,684.52 in the UBS Government Money Market Fund.
- x. No investment at any financial institution exceeds the \$250,000 FDIC Insurance limit. Interest rates range from 1.05% to 2.05% and maturities range from April 2018 to March 2019.
- xi. Subsequent to the last meeting, the Association had three CDs mature. Two of these CDs were invested in new 12-month CDs. \$150,00 was invested in Merrick Bank at 1.85% and \$100,000 was invested at Huntington National Bank at 2.05%. A CD for \$125,000 just matured and has not been reinvested yet.
- xii. The current projected expenditures should be covered by cash on hand. This will allow the Committee to invest the \$125,000 from the CD that matured in a 12-month CD. A CD for \$120,000 matures before the next meeting on June 11, 2018, which I propose to re-invest in a 12-month CD.

Rex asked for Board concurrence to purchase a 12-month CD for \$125,000, and a 12-month CD for \$120,000 after the CD matures in June. Jerry made a motion to

approve and Steve Tanberg seconded the motion. The motion carried unanimously.

c. *Managers' Report: Stephen Hicks*

- i. Before Stephen proceeded to give his report, Bill Lamberton recognized and congratulated Stephen for being named the Castle Resorts & Hotel's General Manager of the Year for 2017. Stephen thanked the Board and the attending Ownership for their support and partnership with him and his team, thanking the Castle Resorts as well as the Association staff for their support.
- ii. Stephen reported that there are 10 new lounge chairs as well as 20 new regular chairs for the pool areas. In three weeks' time, there will be an additional 20 regular chairs and 10 lounge chairs for the pools. Most of the chairs around property had deteriorated in one way or another and it was time to replace them.
- iii. Stephen suggested that Owners turn off water and water heaters when leaving the unit empty for a long period of time. This can help prevent accidents from happening while the Owner is away from the unit. There was over \$70,000 spent in 2017 alone on insurance claims. This simple step can help to limit future losses.
- iv. Each member of the maintenance team is using a thermal detector when accessing units, looking for hotspots in walls and around outlets to determine potential fire hazards. Results are being monitored and documented.
- v. The gas grills need to be refurbished and repaired, which is another task our property teams will take-on for this year. That work will continue until all are completed.
- vi. Stephen then noted the display in the Main Pool Lobby, point to the pillar work and wooden block replacements. They have moved to oak, as opposed to pine blocks, since they will last longer and save money on repairs and upkeep.
- vii. Greg Rice of 3403 asked Stephen if the Grounds and Maintenance team were refurbishing the landings. Stephen responded yes, they are, and indicated that building 25 had just been completed.

VII. **Election of Directors**

- a. Bill Lamberton introduced the election and explained the two Board positions set to expire. The two candidates up for election, George Pittman and Bill Dallenbach, are currently on the Board. There are no other submissions. Bill asked the attending Ownership if any nominations from the floor; there were no nominations.
- b. Since there were no nominations from the floor, Bill Lamberton asked the Ownership to put the election of directors to vote via acclamation. Dean Yamamoto confirmed that there was 75.3365% of the ownership represented and a quorum was established.

A motion was made by Bill Wesslund of 603 to approve the re-election of George Pittman and Bill Dallenbach as Directors of the Board. The motion was seconded by Al Gulick of 3702. The motion carried unanimously.

George Pittman and Bill Dallenbach were re-elected to Directors of the Board for three-year terms via acclamation by majority Ownership vote.

VIII. **New Business**

- a. Painting and reroofing carports and replacing/refurbishing the doors in the carports.
 - i. Bill Lamberton deferred to Stephen Hicks and George Pittman to report on the status.

- ii. Stephen recommended Carport refurbishment and painting be done in house, saving the Association over \$20,000.
- b. Bill Lamberton noted, referring to George Pittman's report, that we will continue the foundation evaluation for 2019 pier repair. All 25 pier repairs budgeted for 2018 have been completed.
- c. At the quarterly Board meeting this morning, the Board approved the purchase of a new work truck to assist our Grounds and Maintenance teams, in addition to two refurbished golf carts.
- d. The Board is also looking to replace at least 13 pressure relief valves on the buildings.
- e. Bill stated the Board is working on proposals for possible seal coat portions of the parking lot and will report on that in the next meeting if there are any updates.
- f. Over the last year, the Board has investigated solar panels for the AOAO, quotes received indicate the work will cost \$300,000 to \$500,000. Given this, it is unlikely the Board will move forward with this concept, however are continuing to look at other options and develop an AOAO policy for solar installation.
- g. Re-write of Kanaloa By-Laws to correspond to HI revised statute 514B
 - i. Steve Tanberg reported that the Board worked with an attorney to revise the current By Laws and found that written practices were not quite how current practices are handled. One of the many difficulties was reading the amendments.
 - ii. At the last meeting in January 2018, Steve Tanberg made a motion to for the Board to approve the submission to the Association Owners for a vote at the annual meeting for the following resolution:
Be it Resolved that the Association does hereby adopt the Amended and Restated Bylaws of the Association of Apartment Owners of Kanaloa at Kona.
This motion passed, and this annual meeting provides for Ownership to vote for approval. Steve noted it is necessary to have 67% approval.
 - iii. After tallying the votes, Dean Yamamoto confirmed that **71.7297% of Owners approved the By-Law change. 3.6068% were not in favor.**

With over 67% percent approval, the re-written and amended By-Laws are now re-instated and in effect for the Kanaloa at Kona Homeowners Association.
- h. Bill Lamberton deferred to Steve Tanberg, who noted that IRS Revenue Ruling 70-604 is an association tax tool that permits funds/income to be carried over to the following tax year, without any tax implications.
Steve Tanberg made a motion that any excess member assessments not used by the Association during 2018, be applied toward the 2019 assessments as provided by IRS Revenue Ruling 70-604. The motion was seconded by Bill Lamberton and carried unanimously.

IX. **Next Annual Meeting: Friday, April 26, 2019 at 9:00a.m.**

X. **Adjournment:** Bill Lamberton, President, adjourned the meeting at 11:55 a.m.