

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

*Friday, April 26, 2019 – 10:00am
Main Pool Lobby*

- I. **Call to Order:** Bill Lamberton, President, called the meeting to order at 10:09 a.m.

- II. **Roll Call:**
Present: Forbes Burdette, Bill Dallenbach, Jerry Ernst, Bill Lamberton, George Pittman, Rex Sawyer, & Steve Tanberg. Quorum was established.

Guests: Castle Resorts & Hotels Members; Robin Graf – VP of Operations, Dean Yamamoto – VP of Finance

- III. **Proof of the Meeting:**
Bill Lamberton, President, welcomed all in attendance and noted that a quorum was established for this Annual Meeting.

- IV. **Approval of the April 27th, 2018 Annual Board Meeting Minutes:**
Bill Lamberton, President, asked for approval of the April 27th, 2018 minutes.
A motion was made by Rich Jarvin of 1302 to approve the minutes. The motion was seconded by Greg Rice of 3403, and the motion carried unanimously.

- V. **Committee Reports**
 - a. Bill Lamberton introduced Sue, noting it is important for Owners to understand the integral relationship between the insurance master policy and individual unit policies. All of this was brought to light when the Association and several Owners encountered roofing problems.
 - b. Bill proceeded to address the new Hawaii Statute 108; Ordinance 18-114 applicable to all those Owners that rent property on-island. A Short-Term Vacation Rental Application will be due to the State and it is the responsibility of all Owners who rent, to apply for this certificate and pay the \$500 fee to the State. This new legislation will impact rental-ability moving forward, so it is important that Owners pay close attention to this and any new legislation passed for rentals.
 - c. *Treasurer's Report: Steve Tanberg*
 - i. Steve Tanberg reported that he will provide the key financial data for the 2018 year, without drilling down to the exact penny. He noted a handout was passed out to all in attendance and available to detail the full financial report.
 - ii. The Operating Fund Balance, comprised of immediately available investments in addition to the checking account, is \$179,505.
 - iii. The Regular Reserve Account, which is for long-term recurring projects (like re-paving the driveways), has a balance of \$52,741.
 - iv. The Special Reserve – ADA Compliance balance is \$38,456.
 - v. The year-to-date Operating Fund Surplus is \$168,425.

- vi. Income from the activities desk for the year was \$36,000, but the contract has been cancelled and the Association will no longer receiving this income. The Board is hopeful to find someone else to take that position.
- vii. Income from the Castle Rental Program for 2018 totaled \$35,306.
- viii. General Assessment to Operating is \$1,721,723, and General Assessment to Reserves is \$184,581.
- ix. Steve noted that every year there is a budget followed, and on a monthly basis the Board reviews to assure pace to budget and all expenses are within reasonable variances.
- x. Among the favorable variances was the \$5,000 in other income from the sale of the property truck.
- xi. Pool expenses was budgeted at \$13,200 for the year, and due to much-improved management of the pool chemicals and water treatment, reduced the cost by \$4,511 for a variance/saving of 34%.
- xii. Saving for payroll taxes and benefits, including some understaffing, was \$45,291 for the year, or a 27% savings.
- xiii. Recovery work orders reflects what is billed back to the maintenance department for completing work inside the units. It has been budgeted based on historical trends and data from the property, at \$35,400 for the year. Kanaloa has a great maintenance team that performed work for the year amounting to \$117,362 or \$81,962 over budget.
- xiv. Cable has had intermittent problems throughout the year, resulting in a variance of \$2,845 or 43% over budget. Castle has now contracted with a VOIP system through a local company, and telephone expenses should continue to be much lower than in previous years.
- xv. The Association budgeted \$19,980 for building supplies. But exceeded the budget by 29% for a total of \$5,801.
- xvi. Over the last two years, legal expenses have been high due to 1) the Board taking an aggressive stance on delinquencies, 2) for re-working the By-Laws, and 3) in 2018 there was one homeowner that was taken to Court by the Association for violating the By Laws involving cats. In the first quarter of 2019, the Association is currently under-budget for legal fees.
- xvii. In grounds and ground supplies, we were \$9,900 over budget for a difference of 33%. This was mostly due to the addition of a project to re-landscape the triangle area between the road and adult pool.
- xviii. Repair and Purchases were 216% over budget for \$25,970, which were supplies purchased for future use and mostly for work performed inside individual units. This will, if not already, be billed back to the Owner to pay.
- xix. Ownership delinquencies continue to improve. The Association is now charging legal fees directly to the Owner, in addition to interest. One unit is 30-days late for \$50, Two units are over 60-day's late for \$2,211, and an additional two units are 90-days late for \$1,126. Three units are more than 90 days late for \$56,730.
- xx. Steve noted that some of these delinquencies are likely recoverable. The doubtful account balance is \$41,233, with the likely recoverable amounting to \$15,497.
- xxi. Steve Tanberg 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 2019, be applied toward the 2020 assessments as provided by IRS Revenue Ruling 70-604. The motion was seconded by John Page of unit 2106 and carried unanimously.

d. *Grounds and Safety: George Pittman*

- i. George Pittman reported that he would be reviewing the highlights from the 2018 year.
 1. The triangular area by the adult pool was re-landscaped with the addition of grass and new trees.
 2. The team purchased a new Ford pick-up truck for use and sold the old F150.
 3. Carports is a large on-going project the team is working on. They started at 1 and are just about to finish 14. The goal is to finish all carports by early 2020.
 4. Termite damage is another on-going project, with much of the damage found where the wooden pillars reach the ground. There is a skilled carpenter available and the repairs are being completed as needed.
 5. This is the 3rd year that the team has been tackling the repair of the concrete foundation piers, after finding that plaster had been used incorrectly by previous management company to address the issue. 80 have been completed, with almost all done through buildings 1-14.
 6. The hot tub by the ocean pool tile has been deteriorating and has since been re-tiled.
- ii. A question was asked in the audience on mosquitoes on property and how often the team sprays to be rid of them. George responded that the team does not spray, though he is uncertain of the current practices the grounds team used to keep the mosquitos at bay. George will follow-up with Steve and the team to assure it is being taken care of.

e. *Investments: Rex Sawyer*

- i. 2018 Annual Report:
 1. The value of the Kanaloa Capital Account on December 31, 2018 was \$1,456,725.29. This amount includes \$11,002.95 owed to the reserve account by the operations account and accrued interest from investments of \$7,661.63.
 2. The invested amount totaled \$1,460,066.61 with \$1,180,000 in 9 CDs at 8 different banks, and \$280,066.61 in the UBS Bank USA Business Account. No bank investment exceeded the \$250,000 FDIC insurance limit and all funds were government insured.
 3. Wells Fargo Bank had a 13-month term and matures September 16, 2019. All other CD's have a 12-month term, with interest rates ranging from 1.75% to 2.70%. The interest return on the UBS Bank Account averages at a rate of .30%.
 4. A listing of the Capital Reserve Investments is included in the annual meeting packet.
 5. Investment income for the year is reported by the auditor and was \$21,615.00 for 2018, which is higher than the \$12,786 in investment income received in 2017.
 6. The Investment Committee is composed of Bill Lamberton, Steve Tanberg, and Rex as chairman. The investment restrictions requirements are dictated by

Hawaii Condominium Code 514b. These restrictions and requirements can be found on page 77 of the Code Condominium Document.

- ii. 2019 1st Quarter Report:
 1. The value of the Kanaloa Reserve Account at the close of the first quarter, March 31, 2019, was \$1,459,848.00. Included in this amount were CD's totaling \$1,330,000, cash reserves in the UBS Bank USA Business Account for \$138,379.43 and accrued interest of \$17,148.93 owed from the reserve account to the operating account. Accrued interest from the CD investments totaled \$8,617.50.
 2. The CDs for \$1,330,000 were invested in 9 CDs from 7 different banks. No bank investment exceeded the \$250,000 FDIC insurance limit. Maturities ranged from May 15, 2019 to February 2020. Interest rates ranged from 2.05% to 2.70%. 12-month CDs rates range from 2.35% to 2.40%, which is slightly lower than the average return in the 1st quarter portfolio as interest rates continue to decline.
- iii. Subsequent to the last meeting, the Association purchased 2 Bank CDs to reinvest the proceeds from two maturing CDs. A 12-month CD for \$150,000 from Compass Bank with an interest rate of 2.45%. A CD for \$100,000 matured on March 26, 2019 and the proceeds are reflected in the \$138,379.43 on the March 31 balance sheet.
- iv. \$100,000 was invested in a 12-month CD with Customers Bank with an interest rate of 2.4%.
- v. Two CDs will mature before the next meeting. One is in Investors Bank for \$125,000 which matures on May 15, 2019 and a CD for \$100,000 which matures on June 21, 2019.
- vi. The \$55,527 in cash will be available on March 21, which will cover current funding needs.
- vii. The maturing CDs will be re-invested in new 12-month CDs. The two, \$100,000 CDs with JP Morgan paying 2.65% and 2.7% will end next month and the funds may be available for new investments in CDs. JP Morgan is currently offering an interest rate of 2.40% for their 12-month CDs.

VI. **Managers' Report:** *Robin Graf*

- a. Robin thanked the audience for their patience during the transition. He reported that Stephen Hicks was no longer with Castle Resorts, but Dale Mustard, the new General Manager would be replacing him and introduced her to the audience.
- b. Stephen Sekai has taken over the Grounds Supervisor position and has been working diligently over the last month since his return to property.
- c. For maintenance, there have been no staffing changes, but they are still currently short staffed, looking for one more team member.
- d. In Donny's recent absence, Ken Albert has stepped in to assist in the meantime.
- e. Many different projects around the project as reported by George. Screen replacements are also underway for the buildings, as well as safety railing and water pressure regulator replacements.
- f. Entrance stair landings have also been a project the team has tackled, along with directional sign rebuilds, dryer vent cleaning, window frame replacements and AC lattice covers where needed.

- g. The best way to contact maintenance to have an issue addressed is through email, Robin assured that a communication would follow the meeting to share the contact information.
- h. Bill Lamberton ended the report to thank Robin for all his work and effort during the tumultuous time without a General Manager in place.

VII. Discussion Items

- a. Steve Tanberg discussed a recent request by an Owner to have Aloha Condos present at the next meeting. The request was denied, due to the way the management of the property and rental program has been designed for Kanaloa. The Association and Rental Program is run by the same company to incentive that company to take the upmost care of the property, guests, and Owners. All Owners receive the benefit of the Front Desk and the services associated, which is not a cost associated with any Association dues. Castle pays for this entirely and noted it behooves the Owners to have a strong on-site rental program to continue a strong operation. The Board and Association favors the on-site rental program in order to promote healthier care of the property and guests, and cohesion in order to keep Kanaloa the paradise Owners know it to be. It's absolutely necessary that we have a viable and strong rental program on-site, otherwise the same level of service and care will disappear.

VIII. Discussion Items for Vote

- a. *Steve Tanberg read the following discussion items for approval at this meeting.*
 - i. The Board has had trouble over the last year collecting for delinquencies and has worked with lawyers to adjust the By Laws to permit the Board and Association to fine Owners who are delinquent. They have further finessed this and specified the fines associated with any delinquencies or violations in the House Rules.
After tallying the votes, Dean Yamamoto confirmed that not enough Owners turned in their ballots to meet the minimum requirement to pass the By Law change. The motion was therefore denied and did not pass.
 - ii. Many requests were received by Owners for the Association to look into Solar Panels and hire a consultant for \$10,000 to find out this system is a viable option for Kanaloa, looking at cost, cost savings, and items such as unsightliness (tree removal, roof panels etc.) for a comprehensive report.
After tallying the votes, Dean Yamamoto confirmed that not enough Owners turned in their ballots to meet the minimum requirement to approve the \$10,000 expenditure for a consultant on solar panels. The motion was therefore denied and did not pass.

IX. Election of Directors

- a. Bill Lamberton reported that a quorum was established and 56.45% of the ownership was represented.
- b. Bill proceeded to introduce the election and explained the three Board positions set to expire. The three candidates up for election, Jerry Ernst, Steve Tanberg and Bill Lamberton, 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.
- c. 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 56.45% of the ownership represented and a quorum was established.

A motion was made by Bill Wesslund of 603 to approve the re-election of Jerry Ernst, Steve Tanberg and Bill Lamberton as Directors of the Board by acclamation. The motion was seconded by Owner of 1604. The motion carried unanimously.

Jerry Ernst, Steve Tanberg and Bill Lamberton were re-elected to Directors of the Board for three-year terms via acclamation by majority Ownership vote.

- X. Executive Session
- XI. Next Meeting, Annual: Friday, April 24, 2020: 9:00am.
- XII. Adjournment: Bill Lamberton, President, adjourned the meeting at 10:47 a.m.