

**MAKENA SURF AOA
ANNUAL HOMEOWNERS' MEETING
Saturday, February 25, 2017**

Time: 9:30 a.m.

Place: Mulligan's on the Blue

Directors Present:

Mr. Donald Baron, President
Mr. Dick Clotfelter, Secretary
Mr. Paul Imwalle, Treasurer
Mrs. Betty Kay Anderson
Mr. Richard Michaels
Mrs. Dusty Pence
Mr. Greg Wolf

Management:

Ms. Ann Shipman, General Manager

Others Present:

Mr. Dave Merchant, Attorney retained by Makena Surf AOA
Ms. Lysa Tracey, Dave Ferguson, Maile Wright, Daliana Kaneakua, Management
Consultants Hawaii
Ms. Enza Froio, Recording Secretary, Aloha Office Services

Owners Present:

Greg and Linda Wolf, B102
John and Ginny Freyer, B104/105
Lindsay Olson, B106
Richard and Judith Michaels, B108
Don and Senia Hussong, B202
Paul and Mary Jo Johansen, B205
Jim and Susan Banister, B206
Bruce and Cheryl Scott, B207
Mark and Coreen Joseph, B303

Norm Champ, C101
Bill and Jani Pauli, C106
Don Hoscheit Jr. and male guest, C202
Patricia and Don Baron, C206
Dick and Jan Clotfelter, C107

Paul and Winnie Kepler, E101
Robert and Gymme Frank, E106
Betty Kay Anderson, E205

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Annual Homeowners' Meeting
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Paul and Cathy Imwalle, E303
King Husein, E304

Pat and Camilla Carson, F101
Hisashi and Kuniko Juba, F102
Stephen Mannschreck and Susan Mattinson, F107
Arlene Hunt, F108
Nancy Geary and daughter Wendy, F202
Malcolm Johnson, F205
John Rough, F208
Cathy Mayer, F210
Steve and Susan Heller, F302
Irene Geyer representing Fred Lux, F303
Nathan Kellogg, F307
Joe and Nancy Walker, F308

Dorothy Pence, G101
Heather Barbieri, G106
Roger and Janna Morgan, G201
Bobby and Maxine Goldsmith, G204
Peter and Nancy Roehl, G206

Call to Order: President Baron called the meeting to order at 9:30 a.m.

Proof of Notice: President Baron verified that notice of the February 25, 2017 Annual Homeowners Meeting was posted in two (2) places on property and mailed to owners of record on January 24, 2017.

Quorum: A quorum was established with a total of 77.71509% of the owners present in person (34.04164%) or by proxy (43.67345%). The total voting quorum is 74.24832%.

Approval of Minutes:

The 2016 Annual Meeting minutes were presented for approval. Mrs. Anderson noted grammatical errors.

Motion: *To approve the Annual Meeting minutes dated February 27, 2016, as corrected. (Clotfelter/Imwalle, E303)*

CARRIED unanimously.

REPORTS OF OFFICERS AND DIRECTORS

President's Report

President Baron stated that he and his wife have been owners at Makena Surf for over 20 years. After owning the property for five (5) years, a Board member at the time asked him to attend a Board meeting and then invited him to join the Board. President Baron recognized owner Robert Frank (E106) as his mentor and noted that Mr. Frank had provided 14 years of service to the Board. President Baron congratulated the previous great Boards that have served the Association and noted that he continues to seek advice from previous Board members.

Makena Surf is a special place. "Let's make Makena Surf great again."

ELECTION OF DIRECTORS

There are four (4) vacancies to be filled on the Board of Directors. The terms of Greg Wolf, Richard Michaels, Don Baron, and Betty Kay Anderson are expiring.

Statements of interest have been submitted by:

1. Don Baron (incumbent)
2. Mark Joseph
3. Paul Kepler
4. Richard Michaels (incumbent)

President Baron called for further nominations from the floor.

Motion: *To nominate Betty Kay Anderson as candidate to the election for the Board of Directors. (Pat Carson, F101/Mal Johnson, F205)*

CARRIED unanimously.

Hearing none further, nominations were declared closed.

The nominees are:

1. Betty Kay Anderson
2. Don Baron
3. Mark Joseph
4. Paul Kepler
5. Richard Michaels

Nominees were offered the opportunity to briefly present their qualifications.

Cumulative voting procedures were explained.

Nathan Kellogg, (F307) and Jani Pauli (C106) volunteered to serve as Inspectors of the Election.

The meeting was recessed at 9:56 a.m. for voting purposes and reconvened at 10:13 a.m.

Treasurer's Report

Treasurer Imwalle thanked owners for their presence.

2016 Budget Review and Highlights (as of December 31, 2016):

- Cash Reserves: \$1,303,248, most of which is in CDs.
- Operating Revenues/Total Income: \$1,894,745, which is \$33,000 over budget due to \$19,000 received in construction fines and increased rental income from Ali'i Resorts and Destination Residences.
- Buildings & Maintenance: \$253,000 or about \$39,000 under budget.
- General and Administrative: \$92,000 or about \$5,000 under budget.
- Insurance: \$217,000, close to budget.
- Utilities: under budget by \$32,000, mainly due to electrical savings thanks to Mr. Baron's efforts.
- Total Revenue: \$1,894,745.
- Total Expenses: \$1,766,361.
- Operating Revenue Excess: \$128,384.

2017 Highlights:

For the month of January 2017, the Association is \$3,000 underspent year-to-date. The Board approved an increase to the maintenance fees by 1.8% (which is equivalent to the current inflation rate).

Treasurer Imwalle acknowledged Ann Shipman for her day-to-day operations and ensuring efficiencies in money spent.

Association Funds

Motion: *Be it resolved that any assessments in excess of expenses for the fiscal year ending December 31, 2016 of approximately \$128,384.99 shall be carried forward and applied to Replacement Reserve Funds for the next fiscal year as provided by IRS Revenue Ruling 70-604. (Freyer, B105/Michaels, B108)*

CARRIED unanimously.

Selection of Auditor

Motion: *To authorize the Board of Directors to select the auditor for 2017. (Imwalle, E303/Goldsmith, G204)*

CARRIED unanimously.

The 2016 audit has been received. The Association is in agreement with general accounting principals. The audit shows the percentage of current liabilities in the Reserve Fund as 62%.

This figure will climb to 68.66% with the approved increase in 2017. Treasurer Imwalle acknowledged owners for their willingness to step up and maintain the property.

Insurance

Mr. Clotfelter reported that the appraisal was modified so that all buildings are reassessed from a replacement cost basis the same way across the board whereas today's costs need to be considered for replacement. The Association is insured at \$65 million of coverage as opposed to the original \$52 million.

Landscape Report

Ms. Anderson reviewed her written report, as distributed to the owners. She highlighted the following items:

- Mrs. Shipman has changed how the staff takes care of the landscape, so that the staff now works together on projects. The work done to the G garbage area is an example of such teamwork. The team amended the soil, built trellises, and installed plantings around the base.
- The Koi fish in the pond are beautiful.
- A plant nursery on Chang's perimeter outside of the North tennis courts is being created.
- Rinsing the plants of the Hibiscus hedge along the property line has revived the hedge and created more blooms. It is hopeful this will continue to improve the appearance of the hedge.
- New grass at C building has improved the area. It was learned that different types of grass work better in different areas.

Owner Comments:

- Maxine Goldsmith (G204) requested improvements to the G building herb garden.
- Bill Pauli (C106) inquired if the gardeners who left will be replaced.
- Judith Michaels (B108) indicated concern with regard to the gardeners being short-staffed. Mrs. Shipman noted that she is monitoring this item closely and will continue to evaluate.
- Jani Pauli (C106) acknowledged Mrs. Anderson, Mrs. Shipman, Elizabeth Erickson (Landscape Consultant) and the crew for their work at the C Building. The area looks beautiful.

Newsletter

Mrs. Pence stated that each newsletter issue now includes a profile of one (1) owner and one (1) staff member or an individual who contributes to the care and maintenance of Makena Surf.

Mrs. Pence will continue as Newsletter Editor but because she will not be on property as often in the next few years, she requested owners' assistance with interviewing neighbors and/or staff members.

The summer newsletter included a printing of the new Code of Conduct, which any incoming Board member is required to sign. The Board has made a small change to the motion to clarify that the policy applies to *newly re-elected* Board members as well.

Owner Comments:

- Mal Johnson (F205) suggested the newsletter include a photo and name of each staff member.
- Norm Champ (C101) suggested that the picture of each staff member, with their title and the year employment began, be displayed in the office. The Board agreed to proceed accordingly.

Construction

Mr. Wolf reported that in 2016 there were 16 construction applications of which 10 were Level 3 and six (6) were Level 2. Eleven (11) of the applications were from F Building and five (5) were from G Building. There were four (4) partial remodeling projects (Level 4). Due to Mrs. Shipman's diligence and assistance from President Baron, all projects were completed in 2016. However three (3) projects were not completed by the November 19th deadline, but rather were completed in the extended construction period in December. These units were subject to fines of \$19,000, which were collected by the AOA.

The construction period for 2017 is April 24 to November 17. Thus far in 2017, three (3) applications have been received, of which one (1) is in E building and two (2) are in B building. Owners are urged to file applications with Mrs. Shipman as early as possible if planning projects in 2017; and to read the rules pertaining to remodels, which were recently updated and are located on the web site.

Owner Comments:

Heather Barbieri (G106) commented that the solar panels are noisy, which disturbs those in the two-bedroom units. She requested the Board continue to pursue isolation panels. President Baron stated this would be done.

Policies and Procedures

Mr. Clotfelter reported that in 2016 a Nominating Committee was established in response to the challenges experienced with recruiting owners to run for the Board. The intention was that the Nominating Committee would develop a slate for the Board's approval. Legal counsel indicated that having a Nominating Committee does not preclude accepting nominations from the floor. A copy of the legal opinion on this matter was made available to owners present.

The issue is that volunteers to run for the Board are needed. This Board is now seven (7) members with the ability to be reduced to as low as five (5) members. It is the hope that owners will volunteer in the future as opportunities become available.

Security

Mr. Michaels reported that there have been no break-ins at Makena Surf for the third year in a row. There has been one (1) change in the security staff during the year due to the dismissal of one (1) guard who failed a random drug test. A new guard (Ron Reed) has been hired as a replacement on the late night shift.

Owner Comments:

Pat Carson (F101) indicated concern about guards speeding on the Segway. Mr. Michaels stated that the intention of the Segway is to assist guards to move around the large property. Guards should park the Segway and then patrol around the property. Mr. Michaels and Mrs. Shipman will address this issue.

ACKNOWLEDGEMENT

Judith Michaels (B108) stated that in her 30 years at Makena Surf, this past year since Mrs. Shipman was hired has been the best the property looks. She acknowledged Mrs. Shipman for her contributions and professional manner. She noted that the staff is happy and hardworking; the property looks fantastic; and homeowner concerns are being addressed. Mrs. Shipman received a standing ovation.

OLD BUSINESS

Standing Committee for Next Year's Slate of Board Members

President Baron stated that the standard in other associations is for the Managing Agent to have the authority to manage the process of recruiting nominees for election, independent of the Board. The Managing Agent sends to the ownership a 60-day and 30-day notice regarding an owner's intent to run for election. President Baron inquired owners present of their preference to continue with the Nominating Committee or to eliminate the Nominating Committee and implement the 60- and 30-day notification process.

Mrs. Pence stated that Attorney Merchant has provided a legal opinion that the Board is not restricted to vote for the slate and that there is nothing that precludes the Board from amending the proposed slate from the Nominating Committee.

Roger Morgan (G201) stated that in the past, the Board of Directors would recruit nominees and formulate a slate. However, owners felt the process was too isolated. A motion was passed at the last Annual Meeting to create independence from the Board and to have an objective recruiting process. There was language in the motion that some interpreted that the Board would be required to accept the slate proposed by the Nominating Committee. It was clearly established this was not allowed so the Nominating Committee offered those candidates with no endorsements.

Winnie Kepler (E101), a member of the Nominating Committee, stated that many owners showed interest in being on the Board but were deterred from the political atmosphere. She recommends keeping the Nominating Committee.

Paul Kepler (E101) stated that the Nominating Committee broadens the network and does not preclude the manager from doing her job or Board members from soliciting nominees. Changing the culture will encourage more nominees. He recommends the Nominating Committee remain in place.

Mal Johnson (F205) commented that even the Nominating Committee can be political and that having the manager send the notices only tends to sterilize the process. The issue is that there could be no response to the notices. In the case of no responses, the size of the Board could be reduced, existing members could step up, or there could be nominations from the floor.

John Rough (F208) recommends re-naming the Nominating Committee to the "Recruiting Committee".

Mrs. Pence clarified that Mrs. Shipman would not recruit, but send the notices only.

Paul Johansen (B205) stated that for years the Board selected the slate so the Board perpetuated itself, which is what should be avoided.

It was agreed to continue with the Recruiting Committee (renamed from Nominating Committee).

President Baron called for volunteers for the Recruiting Committee. The following owners volunteered to serve:

- John Rough, F202
- Gymme Frank, E106
- Judith Michaels, B108

ELECTION RESULTS:

The election results were announced as follows:

- Betty Kay Anderson, 75
- Don Baron, 55.9
- Mark Joseph, 48.7
- Paul Kepler, 63.8
- Richard Michaels, 21.6 (not elected)

Attorney Merchant stated that the Board voted to evenly divide their votes among the candidates. The Board controlled 10.2% of the proxy vote so each of the five (5) candidates received about 2.1% added to their vote.

OLD BUSINESS (cont'd)

Fitness Center

Mr. Clotfelter reported that the first proposed location of the fitness center was the boardroom, which is used by the Board, staff and others. The second idea was the second floor space that

used to be for the Resident Manager. Half of this space was leased to Ali'i Resorts. A lease was prepared for Destination Residences in their existing space across the hall from the office. After research, it was determined that the second floor space next to Ali'i was not adequate for a fitness facility because a new foundation to support the structure and weight would have been necessary and expensive. Also, there was concern for creating noise for the office below. It was then determined that Destination Residences has a preference for space on the second floor to greet guests and to be more competitive with Ali'i. This would then open up half of the downstairs space for the fitness facility. Two (2) glass doors in the front and back of the space would be installed. In conclusion, for the approximate cost of \$35,000 to \$42,000 the downstairs space could be retrofitted to be functional for the fitness facility (not including equipment, which would be an additional \$18,000). There is an excess of about \$30,000 in last year's assessment that could be used toward the expense. The project could be done without an assessment. There is a contingency that would cover the difference between actual cost and excess from assessment.

Mrs. Anderson noted that the law changed from 75% to 67% ownership approval required to change use of common element. There is a total voting quorum of 74.24832% at today's meeting. A decision could be made at today's meeting without the need for a mail ballot.

Motion: *To amend the Declaration of the community as follows:*

1. To approve remodeling the present space, east of the office, and presently used for Destination Residences offices and maintenance shop, this space is approximately 406 square feet. The AOAO requests that this space be remodeled into a Fitness Center for the use of Owners and Guests, as per the attached floor plan layout. The Declaration – Section 5.(d) Description of Common Elements would be amended to add “Fitness Center” to common element in this section: “The Office/Storage/Manager’s Apartment/Fitness Center building...”

(Steve Mannschreck, F107/Kathryn Mayer, F210)

Owners were instructed to vote via written Special Ballot.

Owner Comments:

- Mrs. Anderson noted that the Association's current insurance carrier has said that coverage is adequate even with the installation of a fitness center. Paul Kepler (E101) disagreed.
- Jana Morgan (G201) indicated concern about the noise resulting from the fitness center. President Baron noted that the area would be insulated.
- Nancy Walker (F308) stated that friends of hers did not buy at Makena Surf due to the lack of a fitness center. Having a fitness center will be positive for resale value.
- Paul Kepler (E101) agreed that a fitness center would enhance the value of the property as well as help owners to be healthier. He recommends that a waiver be signed by anyone

that uses the fitness center. He noted that the treadmill is the only noisy machine. He recommends not having a treadmill in the fitness center, unless it is self-powered.

- Paul Johansen (B205) inquired of sanitation, cleanings in-between uses, and medical attention, if needed. Mrs. Shipman stated that the cleaning staff would clean the area regularly in the mornings and in-between times. Spray bottles/wipes will be made available. Most staff will be taking CPR classes in April 2017. The class will also be offered to owners. In addition, the Board is considering the purchase of a defibrillator. On the weekend, CPR-trained security will be available. Mr. Johansen agreed that a legal waiver is a good idea.
- Lindsay Olson (B106) inquired if the equipment would be purchased or leased. Paul Kepler (E101) stated that purchasing the equipment is the better idea.
- Mrs. Pence commented on the logistical challenges with having people sign waivers. It was stated that a waiver similar to that at the pool could be used.
- Winnie Kepler (E101) stated the guest could sign the waiver upon check-in.
- Attorney Merchant recommends the use of a waiver as an added layer of liability protection.

Ratification of Prior Year's Actions

Motion: *To ratify the actions of the Board over the previous year.
(Freyer/Pauli, C106)*

CARRIED unanimously.

Five-Day Minimum Consent Update

The ballot has been approved.

NEW BUSINESS

Outgoing Directors

Outgoing Directors Greg Wolf and Richard Michaels were acknowledged for their service on the Board.

ADJOURNMENT

Motion: *To adjourn the meeting at 11:48 a.m.
(Adams, B206/Johnson, F205)*

CARRIED unanimously.

Respectfully submitted,
Enza Froio
Aloha Office Services

Recording Secretary

Respectfully submitted:

Reviewed and accepted by:

Dick Clotfelter
Secretary
Makena Surf AOAO

Donald Baron
President
Makena Surf AOAO

APPROVED FORM & CONTENT