

**Approved Minutes for the HICA Regular Board of Trustees Meeting on January 19, 2019 held at HIY&GC respectfully submitted by HICA Secretary pro tem Kevin Smith.**

Vice President Darla Younce called the meeting to order at 10:31 AM. Also present were Trustee Kevin Smith and Island Manager Michael McCarthy. President Scott Holte and Trustees Scott Wilson and Udo Gerz were available telephonically. Treasurer Kurt Kassahn and Secretary Tammy Mason were not in attendance.

Vice President Darla Younce called for a motion to approve the Minutes from the December 15, 2018 Regular Board of Trustees Meeting. Scott Holte so moved, Darla Younce seconded. The Motion passed unanimously with the exception of Kevin Smith abstaining because he was absent from that meeting.

Vice President Darla Younce announced that on January 9<sup>th</sup> Tammy Mason emailed the Board to inform them that she would be resigning her position from the Board due to urgent health needs in her family and that they will be listing their home on the island for sale as soon as possible. Tammy and John have had two amazing years being part of Hat Island Community and will truly miss the Island.

Given this change, the Bylaws state: Article IV

Section 1. ".....the number of trustees shall not be less than 5 or more than 7....."

Section 4. "In the event a Trustee ceases to own land his / her office shall become vacant upon written notification without action other than to enter such fact upon the minutes of the board of trustees..... Vacancy may be filled in section 7 of this article....."

Section 7. "Any vacancy occurring on the Board in accordance with article 1 section IV may be filled by appointment by a majority of the remaining Trustees. The person so appointed shall hold office until the next annual meeting of the members of the association, when vacancies for the remainder of the original terms, if any shall be filled by election of the members in regular manner."

President Scott Holte nominated Paula Bafaro (M-55) to fulfill the remainder of Tammy's term and Vice President Darla Younce seconded. Motion passed unanimously. Thank you and welcome Paula!

**Legal Report – Darla Younce (for Jeremy Stilwell)**

**Surowiecki v. Hat Island**

- Trial Court: As previously reported, Judge Lucas granted HICA and Motson's motion for attorney fees and costs. The total is \$688,423 in fees and costs to HICA against all Plaintiffs plus \$13,694 separately against Surowiecki. The Court also ordered all Defendants to pay Motson's fees in the amount of \$240,932. The Court has not yet entered a final order awarding these fees. That hearing has been set and now re-set for Jan. 29.

**Note: these monies will be paid to the Insurance Company minus \$35K that will be used to reimburse HICA for its deductible paid. No one else will receive any of it!**

- Court of Appeals: Surowiecki filed a Notice of Appeal to Court of Appeals, Division One. The first step of the process will be written submissions by both parties to the Court. We will update the community as we approach filing deadlines and once hearing dates are established.

#### **Div. H Lawsuit**

We had hoped to mediate in early 2019. Due to scheduling issues, we are now trying to set mediation in late April or early May.

#### **Div. J Lawsuit**

We believe this suit lacks merit on many levels. HICA is confident that the “Division J Amendment” has no legal effect on HICA and its assessment structure and will aggressively oppose Surowiecki’s claims in this lawsuit. While we hope to have these claims dismissed in short order, there are no guarantees when it comes to litigation.

#### **Foreclosure Suit:**

We plan to file motions for summary judgment motion in the foreclosure case. Opposition is expected but there is significant legal support for the principal that members of a homeowner association cannot withhold payment of assessments in protest when they don’t get their way. Withholding funds needed to operate the community puts people and property at risk and punishes those in the community that are responsible owners.

### **Island Manager’s Manager’s Report – Michael McCarthy (plus Water Report for Chris Inman)**

#### Repairing the Erosion Near H-Division - Update

1. Emergency and permanent repairs are limited by the Shoreline Management Permit previously issued in connection with the installation of the rocks and eco-blocks.
2. Chuck Bright made emergency repairs and has started on permanent repairs.
3. Delays have resulted from the stormy weather and a series of high tides.
4. Repair material was to be sourced from the recent slide at Mike Worthy’s house. Recently, access was intentionally blocked by a resident of H Division to prevent Bright from moving material on South Beach Drive.
5. The office is working to resolve the cause of the delay.

#### Introducing a New Software System -

1. Historical Overview:
  - a. 2007, HICA began using ACCPAC (Sage) for accounting;
  - b. 2014 HICA converted to Quick Books On-line;
  - c. Mid-2018 the decision was made to outsource all billing, collection and accounting to eCondo Services, Bellevue, Washington. The services provided by eCondo did not meet the needs of HICA and were terminated.

2. The Need: Reliable monthly financial statements fit for audit and tax return preparation.
3. Caliber Software – After several months of investigating available platforms with capacity to handle complex HOAs, the Treasurer and Island Manager have selected Caliber.
4. Implementation Plan –
  - a. Contract with Caliber.
  - b. Add a dedicated Bookkeeper position.
    - i. Bookkeeper/Job Description: data entry and financial reports in Caliber.
    - ii. Funding: See Approved Budget Line 6410-AB “Bookkeeper Expense.”
  - c. Validation Period: Run Caliber and Quick Books in parallel – for 90-120 days to validate accuracy.
  - d. Timing – Begin building into Caliber in early to mid-February.

**Note: Proposed Cost for this software system will be about \$0.50/lot or \$464/month (based on 928 lots). Owners can create their own portal to access their billing information & through which they can pay. Reporting includes all templates needed by HICA. Visibility of our budget with current line item detail. No transition fees. Unlimited free training/meetings for our staff.**

#### Audit - Update

1. Completion of the audit has been dependent on the resolution of three issues: lack of documentation for past write-offs for years 2007 – 2014; an unidentified “Deferred Income” entry in the balance sheet; and, the omission of the Surowiecki lots from the Marina accounting (it has been carried in a separate, single account). Here is how we are addressing these issues:
  - a. HICA and the Auditor reached agreement this week for the treatment of past write-offs.
  - b. HICA, the Auditor and our outside Bookkeeper have tentatively identified the source and treatment for the “Deferred Income” issue on the balance sheet. We expect to have it resolved in the coming week.
  - c. Duan is busy updating the Marina accounting to incorporate Surowiecki to satisfy the auditor.

#### Other Accounting Status -

1. eCondo Services transition:
  - a. The eCondo contract provides for ninety-day notice which will expire at the end of January.

- b. We recently (last week) received another batch of checks, some dating back to October.
2. All bills are current, Member accounts are nearly all updated, payment books have been sent to Members.

Delinquent Receivables -

- a. No discernable collection activity was conducted by eCondo.
- b. The HICA office has recommenced collection activities.
  - i. We are coordinating with the Barker Martin law firm to follow up on accounts previously sent to legal.
  - ii. We are beginning to contact Members with large delinquent accounts.
  - iii. We are in the process of looking for several community volunteers willing to make reminder calls on smaller accounts.
- c. The office will be assuming more responsibility for collection activities to make collection timely and reduce legal expense.

**Water Report**

December Production:

	Nov	YTD
Wells	228,640	2,269,059
RO	0	1,619,360
Totals	228,640	3,888,419

1. During Dec the Wells performed well.
2. The production from this period is ~30% more than Dec of last year.
3. The above numbers were adjusted to reflect a 10% reduction from the digital meter drift we've seen. We are now using our analog meter for all well production numbers.
4. We are still trying to get a quote and time frame for the repair of the RO VFD. We've contacted 2 companies and are still trying to get quotes from them. Hopefully, now that the holidays are over, they will be more responsive. I'm still just running the clean tank to keep the membranes from drying out.
5. Chris Inman took and passed his WTPO1 (Water Treatment Plant Operator) Test. He is now fully certified to run and report on our water system. We have terminated our contract with Donovan Shepard, about a \$2,500 savings.

Hat Island Express Staffing -

1. In the last several weeks we have had both two deckhands terminate their full-time employment. Recently HICA hired Ms. Gabrielle Kelly as our newest deck hand and Mr. Bradley Shelito to fill the position of Relief Captain (he subsequently withdrew).

2. As you may be aware, Captain Ray Brown will be retiring soon. He anticipates leaving his employment at approximately the time his house sells. Ray plans to begin marketing the property in February. HICA is currently seeking the next captain.

#### Thoughts on Repairing our Hat Island Roads -

1. In 2014 the Equipment Committee indicated that the “consensus was that the old grader is no longer needed . . . and recommended authorizing the moving of the grader to an auction firm for sale. The committee is still studying the rest of the equipment needs and did not recommend replacement of the grader until the overall study is completed.”
2. Several Island members believe that we can maintain the roads with the modest equipment we have. We are looking into that possibility.
3. It may be necessary to purchase a small mini-grader to allow the roads to be better maintained.

#### **Announcement of BOT Priorities of 2019 – Darla Younce**

- Finish Audit and publish to the Community.
- Complete transition to new financial and accounting operating system.
- Start foreclosure on a number of delinquent lots.
- Long Range Planning Retreat: (a) Report on accomplishments concerning the goals from the Last Retreat. (b) Encourage Community support for this year’s Retreat, including “Giving Tree” donations for the un-budgeted \$5,000.00 cost.
- Charge the Governance Committee to: (a) Complete drafting and propose By-Law changes; (b) Complete, with our attorney’s assistance, **one** island wide CCRs document, including an Alternative Dispute Resolution mechanism as opposed to lawsuits by and among Owners and the Association.
- Prioritize and complete expenditures on infrastructure and equipment from Capital Reserves.
- Resolve current lawsuits: (a) Dismiss Division J lawsuit with Declaratory relief that the purported Amendment is void and unenforceable; (b) Mediate and resolve the Division H lawsuit; (c) Continue to monitor the status of the Surowiecki appeal; (d) Complete the foreclosure lawsuit.
- Marina: Assess dredging and pier replacement, including costs, available funds, and time-line.

- Ferry: (a) Secure a new Vessel Master, with Ray's pending retirement; (b) Start plan for a new ferry purchase in 2020, including consideration of cost, a special assessment, and financing options.
- Assess how to expedite a completed island wide drainage plan.
- Continue to work with the Snohomish County P.U.D. on the underwater cable.
- Continue to work with the Port of Everett on a long-term agreement, including parking, the sailing schedule, and a more workable ferry berth.
- Marketing: Charge the Marketing Committee to try to get more Members involved in the Association, especially new Members, including "fun" events celebrating our wonderful piece of paradise.

### Committee Reports

- Marketing Committee meeting tomorrow
- Golf Committee meeting is in the works

### Community Input

A Member wanted the Board to be aware that Mr. Surowiecki et al has sent letters to all Division K owners Re: proposed amendments to their CC&R's with an attached proxy appointing Mr. Surowiecki to act on their behalf, similar to what happened in Division J.

Another Member similarly wanted the Board to be aware that Mr. Surowiecki et al has also sent letters to all Division E owners Re: proposed amendments to their CC&R's with an attached proxy appointing Mr. Surowiecki to act on their behalf, similar to what happened in Division J.

A Member asked about whether to respond or not.

**Note: The Board responded emphatically that those who have received these letters, past/present/future, should disregard them, not respond, and understand that the noted "owners association" is not an HOA, it has no authority over Hat Island, its property, or its owners, and members should only correspond with or pay fees to HICA. A letter from our attorney will be coming to the Community soon addressing this and other legal issues.**

A Member inquired about the current status of the potential appeal by the major property owner. Basically, three things are referenced: 1) the Order Granting Partial Summary Judgment Re: Motson, 2) the Order Granting Defendants' Motion for Partial Summary Judgment on Plaintiffs Claims Re: Assessments, and 3) the Order Denying Plaintiffs Motion for Reconsideration.

A Member wanted to know the value of the properties in the Foreclosure Lawsuit. A rough guess is ~\$340K.

A Member asked if we have checked with other entities who use the Caliber software program. One such group is "The Club Snoqualmie Ridge" and, when we asked, they are happy with the software.

A Member inquired about the cost of eCondo versus Caliber. Our base monthly fee with eCondo was \$7,500 per month, including staffing and administration, although add-ons brought that number closer to

\$10,000 per month. Caliber is cheaper as noted, costing less than \$500 per month, but our overall cost will include money for staffing and administration.

A member was curious about the cost of personnel to manage the new software program, including a new bookkeeper. Assurance was given that the amount necessary is covered in line items of our 2019 budget. No new fees are expected.

A plaintiff in the Surowiecki v Hat Island lawsuit wanted it known that they wish to withdraw like some others have. It was noted that they have previously been offered the opportunity to do so but declined and that this decision is in the insurance company's hands now.

A member inquired about the status of the Marina Loan. The loan amount is now less than \$1 million, it ends in 2023, we are currently on track with our current plan, and we are looking at options of refinancing.

A member asked about our agreement with Puget Sound Yacht Club (i.e. - taking back slips, maintenance, and collections). The Board did not have a readily available answer and will get back to the Community about this.

A brief discussion ensued about the H Division lawsuit, particularly definitions of terms. This will be handled in the mediation and there was no reason to discuss it any further in a community forum at this point.

With no further business Vice President Darla Younce called for a Motion to adjourn to Executive Session to discuss personnel and legal matters, with no reconvening of the Regular Board meeting. Kevin Smith so moved, Scott Holte seconded. The Motion passed unanimously. The meeting was adjourned at 11:22 AM. Special thanks to Jim DeCicco for the use of his iPhone!

\*The HICA minutes are intended to be a reasonable summary of the Board's deliberations and actions. The minutes are not a verbatim record of everything said at the meeting. The minutes include all actions taken by the Board.