

Minutes of the HICA Board of Trustees Meeting at HIY&GC on 11/16/2019

Darla Younce, Board President, called the meeting to order at 10:32 AM PST. Present were Erik Smith, Vice President, Kurt Kassahn, Treasurer, Scott Holte, Secretary, Paula Bafaro, Trustee, Udo Gerz, Trustee, and Kevin Smith, Trustee.

Darla asked for a motion to approve the minutes of the Regular Board meeting on 10/19/2019 and the Special Board Meeting on 11/12/2019. Scott so moved for both, Udo seconded the motions for both, and they **passed unanimously**.

President's Report

Darla presented her report as follows:

Last month I neglected to announce that I am President and to introduce Erik Smith, he is our Vice President, Kurt Kassahn will again be our Treasurer, Scott Holte has taken the role of Secretary, Udo, Kevin and Paula are our Trustees. Note that Scott has volunteered to be our liaison for legal issues. Erik and I along with Scott will be meeting with Jeremy to get up to speed on current legal issues.

Kim and I are still in negotiation with the Port of Everett for our parking fees and ferry schedules. We'll let you know the outcome as soon as we come to an agreement.

I am happy to announce that the 2016 audit was finalized on Thursday November 14th and presented fairly in all material respects. Kim has the details in her management report.

I am currently reviewing the charters for all committees and will be touching base with each board and community chairperson.

It was also noted that Captain Blake is in the hospital and our new Relief Captain, Shawn McManus, is covering as needed. He was then introduced at the meeting and thanked him for his efforts. We wished Captain Blake a speedy recovery!

Legal Report

Scott presented an impromptu legal report while awaiting ferry vote results as follows: This is an update on current lawsuits:

1. Surowiecki, Britten and Borromeo v. HICA: This case filed by the major property owner and others ~5 years ago was dismissed prior to trial and Defendants were awarded a judgment for fees and costs in excess of \$960,000. This case has subsequently been appealed.
2. HICA v. Surowiecki Family LP II: The major property owner stopped paying on ~270 lots. This is a foreclosure case filed by HICA against 38 lots owned by Surowiecki Family LP . The case is currently stayed over the objection of HICA.
3. Surowiecki Family LP v. HICA: This lawsuit resulted from an Amendment to the CCRs for Division J, which was unilaterally recorded by Matt Surowiecki. If

enforced the Amendment would change the assessments in Division J. The lawsuit was dismissed by the trial court and has been appealed by Surowiecki.

4. Trautman et al v. HICA: This case was filed by a group of Division H owners primarily over the status of the road, access, maintenance, and more. The trial date was stricken by mutual agreement and the parties have engaged in voluntary mediation. The Board and HICA legal counsel believe that we are very close to a settlement agreement. However, the Board has considerable concerns regarding recent work done on the road and the potential adverse effects to those on the bluff above as well as some Division H owners.

Ferry Vote

The results of the vote for a new ferry were announced as follows:

Yes Votes: 179 No Votes: 26 **Measure Passes**

Thank you to the Vessel Committee and their current Chair, Udo Gerz, and past Chair, Mike Immel, for the years of time and effort they put in to researching the best vessel for the island.

And, thank you to the community for their support throughout the process.

Island Manager's Report

Kim presented her report as follows:

Office

We are excited to welcome Barb Holte to the office team! Barb will be handling accounts payable, owner account management and other office tasks!

We are happy to report that we have wrapped up the 2016 audit. All documents have been signed and we are just waiting on the final draft. What the 2015 and 2016 audit show is that transitions are hard on accounting systems. When you make a change of accounting systems and do not have the bookkeepers that were responsible for maintaining the books available to answer questions it takes longer than needed and some questions can't be answered. We are pleased that the auditors were able to offer qualified audit opinions for the financial statements of 2015 and 2016.

In 2015 the basis for the Qualified Audit Opinion was that the island wasn't able to provide sufficient appropriate audit evidence concerning certain account balances and explanations of certain variances between actual and expected balances. Consequently, we were unable to determine whether any further adjustments to these account balances were necessary. These are some of the same items mentioned in the 2016 draft received.

The Qualified opinion states that besides the above-mentioned reason for a qualified opinion...

That the financial statements for Hat Island present fairly, in all material respects, the financial position of Hat Island Community Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with account principals generally accepted in the United States of America.

Moving forward. We now look to an audit of the 2017 financial year. Kurt and I will be speaking with the head of the firm that performed the audit and we will negotiate a price for the completion of the 2017 audit.

We will also be hiring a CPA and Bookkeeper to offer guidance, account reconciliation and monthly reports for the island as an internal control recommended by the auditor. Day to day financial responsibilities of the island will remain in house with Duan and Barb Holte splitting the responsibilities of accounts payable and accounts receivable.

Kurt and I have interviewed two CPA firms and will interview one more next Thursday.

Challenges still ahead- We are on our way but still have a few accounting challenges. We are still working our way through the mess that was left by eCondo last year. We are working through the list of items that the auditors gave us. Mike McCarthy in his role as a consultant to the island has provided the island with a rough draft for Financial Accounting Controls. It is our number one goal to have the financial books of Hat Island so easy to read that all islanders will have a clear understanding of how the monies collected by the island are spent.

Maintenance

Chris and Jeff installed new vinyl floors in the office replacing the original carpeting that was installed when the building was erected.

Jeff has been working closely with Chris, learning our water system. Cross training on the island is key!

Roads and Trees are our focus at this time of year. We are doing our best to keep the roads from becoming crater fields. We took down the rest of a tree that had fallen precariously over the hill leading down to Conwell park.

Ferry

We are happy to announce that we have hired a new Relief Skipper. Shawn McManus has joined the ferry crew! Make sure to say hi! We are currently actively looking for another relief skipper and deck hand.

Finally, a warm welcome is offered to those in attendance from the “Beach Access Only” areas. We hope that many of you will come more regularly to provide input!

Committee Reports

Kurt presented the Water Committee Report as of 11/13/19:

Water produced in Oct:

	Oct	YTD
Wells	277,415	3,547,420
RO	81,160	672,720
Totals	358,575	4,220,140

During Oct the Wells performed well.

The production from this period was 30% more than from Oct of last year. The water mix was 70% wells and 30% RO.

The wells performed as expected and the mix of Well to RO is in line for the low season as we run the RO less in the winter months.

The state site survey was completed and was what we expected with no major deficiencies. We do have to add separate pressure relief valves for each of our pressure tanks on the G pressure loop system. We currently have 1 valve for both tanks and we need one for each.

PUD visited the island with an engineer to make sure they knew where our marina bathroom drain field was so they can submit the plans for the line replacement. Still no firm dates on the replacement cable.

Treasurer's Report

Kurt presented his report as follows:

Overview

- The 2016 Audit is complete!
- Will be negotiating the 2017 Audit next week
- Interviewing a third CPA for oversight, reporting, tax returns & reviews
- We have four banks interested in refinancing our marina loan and the new ferry and are very encouraged with the preliminary talks
- The finance committee 2020 budget proposal is finished, finally.

November Highlights

- Operating Cash Accounts: \$535,927.18
- All payables are current
- 2016 Audit complete
- CPA interviews are encouraging
- Reserve totals: \$798,258.25

PCB - Capt. Res # 5771	\$425,383.36
PCB - Cash Reserves #5763	\$257,202.58
PCB - Marina Acct #9741	\$29,599.72
PCB - ROP Acct # 5797	\$86,072.54

Hat Island Team

Please welcome Barb Holte as our newest Hat Island employee. She is bringing much needed help to the office. As Kim was promoted to Island Manager her position wasn't backfilled immediately but it became apparent it was time to add some help.

Work on delinquent accounts continues and Kim has sent notices to the larger accounts. A big thank you to Chris & Jeff for the great job installing the much-needed new flooring. It was quite the task to move furniture between rooms, remove the old carpet and install the new planking. It looks great!

2020 Budget

A slide show was presented to review the proposed budget figures, how they were calculated using final 6 month 2019 figures combined with initial 6 month 2020 figures, and more. Alan Dashen, Finance Committee Chair, offered that it was kind of “boring” in that the assessment remains \$1200 and there are minimal changes. Ballots and FAQs will be sent to the community explaining things further in the near future.

Community Input

A Community member asked when the new boat might be ready?

Current goal is that Armstrong Marine will start building it in March and have it ready 6-7 months later. The down payment and other fees are included in the budget and we need to keep our fingers crossed that the Hat Express doesn't develop any major issues resulting in downtime or expenses! Sale of the old ferry will be coordinated with receipt of the new, operational ferry and the funds received are designated for Capital Reserves.

A brief explanation regarding the audit results and recommendations (most have already been done).

A brief explanation was also given about the budget ballot including Audits vs Reviews. As always, the Community needs to vote to waive the audit and it's subsequent fees by a 2/3 majority of votes received or we will have another audit done.

A Community member from the “Beach Access Only” area offered a number of thoughts and suggestions regarding the new ferry. Ideas primarily related to the potential of adding a landing craft option with a lowerable ramp to this boat or even getting a second one with that capability given issues with an aging population, handicaps, PUD/Sheriff/Emergency access, and more.

A brief discussion ensued regarding the need to change the Coast Guard Class for the boat if this were done plus an unbudgeted several hundred thousand dollar price increase and more. The input was universally appreciated and will be considered. Finally, future participation with other island decisions was encouraged.

Adjournment

There being no further business before the Board, President, Darla Younce called for a motion to adjourn to Executive Session, with reconvening to Regular Session at 12:20 PM PST. Scott so moved, Kurt seconded the motion, which **passed unanimously**. The meeting was adjourned at 11:21 P.M.

Reconvene

Darla called the meeting to order at 12:22 PM in order to announce action to continue pursuing collections for delinquent accounts and accept conveyance of one property back to HICA. Scott moved to approve, Kurt seconded, and the motion **passed unanimously**.

Respectfully submitted,

Kevin Smith

*These minutes are a summary of the discussions at the Board meeting, and not intended to be an exact recitation of all said, but do include all of the actions taken by the Board.