

**AMENDMENT 1 TO
AMENDED DEVELOPER'S PUBLIC REPORT
FOR A CONDOMINIUM**

CONDOMINIUM PROJECT NAME:	KAUAI KAILANI
PROJECT ADDRESS:	4-856 Kuhio Highway Kapaa, HI 96746
REGISTRATION NUMBER:	7461 (Conversion)
EFFECTIVE DATE OF REPORT:	October 24, 2016
THIS AMENDMENT:	<input checked="" type="checkbox"/> Must be read together with <input checked="" type="checkbox"/> Developer's Public Report dated <u>July 24, 2015</u> <input type="checkbox"/> Amended Report dated _____ <input type="checkbox"/> Supersedes all prior amendments: Includes all prior amendment(s) and <u>must</u> be read together with <input type="checkbox"/> Developer's Public Report dated _____ <input type="checkbox"/> Amended Report dated _____
DEVELOPER(S):	GCT Properties, LLC, a Hawaii limited liability company

Preparation of this Amendment

The Developer prepared this amendment pursuant to the Condominium Property Act, Section 514B-56, Hawaii Revised Statutes (HRS), as amended from time to time. Section 514B-56, HRS, requires that after the Commission has issued an effective date for the Developer's Public Report, if there are any changes, either material or pertinent changes, or both, regarding the information contained in or omitted from the Developer's Public Report, or if the developer desires to update or change the information set forth in the Developer's Public Report, the developer shall immediately submit to the Commission an amendment to the Developer's Public Report or an amended Developer's Public Report clearly reflecting the change, together with such supporting information as may be required by the Commission, to update the information contained in the Developer's Public Report.

The law defines "material change" as used in parts IV and V of Chapter 514B, HRS means any change that directly, substantially, and adversely affects the use or value of (1) A purchaser's unit or appurtenant limited common elements; or (2) Those amenities of the project available for the purchaser's use.

The law defines "pertinent change" to mean, as determined by the commission, a change not previously disclosed in the most recent public report that renders the information contained in the public report or in any disclosure statement inaccurate, including, but not limited to (1) The size, construction materials, location, or permitted use of a unit or its appurtenant limited common element; (2) The size, use, location, or construction materials of the common elements of the project; or (3) The common interest appurtenant to the unit. A pertinent change does not necessarily constitute a material change.

The filing of an amendment to the Developer's Public Report or an amended Developer's Public Report, in and of itself, shall not be grounds for a purchaser to cancel or rescind a sales contract. A purchaser's right to cancel or rescind a sales contract shall be governed by sections 514B-86 and 514B-87, HRS, the terms and conditions of the purchaser's contract for sale, and applicable common law.

This material can be made available for individuals with special needs. Please call the Senior Condominium Specialist at (808) 586-2643 to submit your request.

This Amendment has not been prepared or issued by the Real Estate Commission or any other governmental agency. The issuance by the Commission of an effective date for this amendment to the Developer's Public Report (1) does not mean that the Commission approves or disapproves of the project; (2) does not mean that the Commission thinks that either all material facts, material changes, or pertinent changes about the project have been fully or adequately disclosed; and (3) is not the Commission's judgment of the value or merits of the project.

The law defines "material facts" to mean any fact, defect, or condition, past or present that to a reasonable person, would be expected to measurably affect the value of the project, unit, or property being offered or proposed to be offered for sale.

This amendment may be used by the Developer for promotional purposes only if it is used with the last Developer's Public Report in its entirety.

Prospective purchasers and purchasers are encouraged to read this amendment carefully and to seek professional advice.

Summary of Changes from Earlier Developer's Public Report are Described Beginning on the Next Page

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Summary of Changes from Earlier Developer's Public Report:

This summary contains a general description of the changes, if any, made by the developer since the last Developer's Public Report was issued an effective date. It is not necessarily all inclusive. Prospective purchasers and purchasers must read this amendment together with the last Developer's Public Report with the effective date as noted on the top of page 1 if they wish to know the specific changes that have been made.

Changes made are as follows (include a description of what the change is and page number and or exhibit alphabet or number; additional pages may be used):

1. Exhibit D (Information on parking stalls): All parking stalls were initially assigned to Unit 2. As of April 2016, about 35 parking stalls had been assigned (i.e., sold) as limited common elements of Units sold and closed. Sales of additional parking stalls may still be in escrow. There are a total of 51 parking stalls in the Project, however, the Developer cannot predict how many parking stalls will remain unassigned and available for use by Owners who do not purchase parking stalls. The Condominium Declaration has been amended several times for the purpose of assigning parking stalls as limited common elements of certain units. Exhibit D which is referenced in Section 1.4 of the Public Report has been updated to reflect these changes. Please see replacement Exhibit D attached to this Amendment 1.
2. Section 2.5 (Persons Connected with the Project - Condominium Managing Agent), page 9: The Developer retained a new broker. The new broker is Kauai.com Real Estate, LLC (RB-21791), P.O. Box 223236, Princeville, Hawaii 96722, Phone (808)755-5866. A copy of the executed listing agreement has been filed with the Real Estate Commission. Please see replacement page 9 of the Public Report attached to this Amendment 1.
3. Section 5.5 (Status of Construction, Date of Completion or Estimated Date of Completion), page 14: Section 5.5 has been updated to reflect the status of the remodeling to the Orchid Building. Except for punchlist items, remodeling of the Orchid Building was completed in 2015. Please see replacement page 14 of the Public Report attached to this Amendment 1.
4. Exhibit 1 to Exhibit N (2016 Operating Budget): The Association held its first annual meeting in 2015 and elected a Board of Directors. The new Board of Directors approved the 2016 Operating Budget for the Project. The maintenance fees have increased since 2015. This may be due in part to normal increases and inflation, changes made in response to experience in operating the project in the first few years, and the fact that the Association is now required to collect reserves pursuant to Section 514B-148 of the Condominium Property Act. A copy of the approved budget and estimate of initial maintenance fees for 2016 is attached as Exhibit 1 to Exhibit N. Please see replacement Exhibit 1 to Exhibit N attached to this Amendment 1. The 2016 Operating Budget approved by the Board did not include Commercial Unit 3. The Developer has notified the Managing Agent, and so it is possible that the Board may amend the budget and require that the owner of Commercial Unit 3 make back payments.
5. Exhibit O (Summary of Sales Contract): The sales contract was revised to update the disclosures related to erosion and the elevator in the Orchid Building. Therefore, the summary of the sales contract provided in Exhibit O to the Public Report was updated accordingly. Please see replacement Exhibit O attached to this Amendment 1.

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Changes continued:

6. Exhibit R (Additional Disclosures): Please see replacement Sections 1.17 and 1.18 of Exhibit R attached to this Amendment 1. The remainder of Exhibit R remains the same.
 - a. Section 1.17 (Erosion): Section 1.17 of Exhibit R has been updated to reflect the situation related to certain erosion at the Project and its resolution.
 - b. Section 1.18 (Elevator): Section 1.18 of Exhibit R has been updated to reflect the current situation related to the installation of an elevator in the Orchid Building.
 - c. Section 1.19 (Miscellaneous): A new Section 1.19 has been added to update information on the completion of repairs to the Project and the preparation of a new reserve study for the Project.

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The Developer declares subject to the penalties set forth in Section 514B-69, HRS that this project continues to conform to the existing underlying county zoning for the project, zoning and building ordinances and codes and all applicable permitting requirements adopted by the county in which the project is located, all in accordance with Sections 514B-5 and 32(a) (13), HRS.

For any conversion, if any variances have been granted, they are specified in Section 1.14 of this report as amended, and, if purchaser deposits are to be used by the Developer to cure any violations of zoning, permitting requirements or rules of the county in which the project is located, the violation is specified in Section 1.15 of this report as amended, along with the requirements to cure any violation, and Section 5.5 specifies the date by which the cure will be completed.

The Developer hereby certifies that all the information contained in this report as amended and the exhibits attached to this report (if any) as amended and all documents to be furnished by the Developer to purchasers concerning the project have been reviewed by the Developer and are, to the best of the Developer's knowledge, information and belief, true, correct and complete. The Developer hereby agrees promptly to amend this report as amended to report and include either or all material facts, material or pertinent changes to any information contained in or omitted from this report and to file annually a report to update the material contained in this report as amended at least 30 days prior to the anniversary date of the effective date of this report.

GCT Properties, LLC

By RAM Corporation, a Hawaii corporation
Its Manager

Printed Name of Developer



Duly Authorized Signatory*

9/29/2016
Date

Gary Oda, President

Printed Name & Title of Person Signing Above

Distribution:

Department of Finance, County of Kauai

Planning Department, County of Kauai

***Must be signed for a corporation by an officer; for a partnership or limited liability partnership (LLP) by the general partner; for a limited liability company (LLC) by the manager or an authorized member; and for an individual by the individual.**

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2. PERSONS CONNECTED WITH THE PROJECT

<p>2.1 Developer(s)</p>	<p>Name: GCT Properties, LLC, a Hawaii limited liability company</p> <p>Business Address: 1717 Akahi Street, 2nd Floor Honolulu, Hawaii 96819-4265</p> <p>Business Phone Number : (808) 432-9900</p> <p>E-mail Address:</p>
<p>Names of officers and directors of developers that are corporations; general partners of a partnership; partners of a limited liability partnership (LLP); or a manager and members of a limited liability company (LLC) (attach separate sheet if necessary).</p>	<p>See Exhibit L</p>
<p>2.2 Real Estate Broker</p>	<p>Name: Kauai.com Real Estate, LLC</p> <p>Business Address: P.O. Box 223236 Princeville, Hawaii 96722</p> <p>Business Phone Number: (808)755-5866</p> <p>E-mail Address:</p>
<p>2.3 Escrow Depository</p>	<p>Name: Old Republic Title & Escrow of Hawaii, Ltd.</p> <p>Business Address: 4-356 G Kuhio Highway Kapaa, Kauai, Hawaii 96746</p> <p>Business Phone Number: (808) 821-6808</p>
<p>2.4 General Contractor</p>	<p>Name: Craig Kawakami Builders (2012-15 Renovations)</p> <p>Business Address: P.O. Box 1155 Kaneohe, Hawaii 96744</p> <p>Business Phone Number: (808) 245-4610</p>
<p>2.5 Condominium Managing Agent</p>	<p>Name: Castle Resorts & Hotels, Inc.</p> <p>Business Address: 500 Ala Moana Blvd., Bldg. 3, Suite 555 Honolulu, Hawaii 96813</p> <p>Business Phone Number: (808) 524-0900</p>
<p>2.6 Attorney for Developer</p>	<p>Name: Charles E. Pear, Jr.</p> <p>Business Address: 500 Ala Moana Blvd., Bldg. 5, Suite 400 Honolulu, Hawaii 96813</p> <p>Business Phone Number: (808) 529-7300</p>

5.5 Status of Construction, Date of Completion or Estimated Date of Completion

Status of Construction: The Project was originally built in the late 1960s or early 1970s. Remodeling of the Plumeria Bldg. was completed in 2013. Except for punchlist items, remodeling of the Orchid Building (Building A) was completed in 2015.
Completion Deadline: If a sales contract for a unit is signed before the construction of the unit has been completed, or, in the case of a conversion, completion of any repairs, does not occur by the completion deadline set forth below, one of the remedies available to a purchaser is a cancellation of the purchaser's sales contract. The sales contract may include a right of the Developer to extend the completion deadline for force majeure as defined in the sales contract. The sales contract may also provide additional remedies for the purchaser.
Completion Deadline for any unit not yet constructed, as set forth in the sales contract: Remodeling will be completed within one year after Purchaser's sales contract becomes binding. This period is subject to extension in certain circumstances enumerated in the sales contract.
Completion Deadline for any repairs required for a unit being converted, as set forth in the sales contract: N/A

5.6 Developer's Use of Purchaser Deposits to Pay for Project Construction Costs Before Closing or Conveyance

<input type="checkbox"/>	<p>Spatial Units. The Developer hereby declares by checking the box to the left that it is offering spatial units for sale and will not be using purchasers' deposits to pay for any costs to pay for project construction or to complete the project.</p> <p>Should the developer be using purchasers' deposits to pay for any project construction costs or to complete the project including lease payments, real property taxes, architectural, engineering, legal fees, financing costs; or costs to cure violations of county zoning and building ordinances and codes or other incidental project expenses, the Developer has to meet certain requirements, described below in 5.6.1 or 5.6.2..</p>
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The Developer is required to deposit all moneys paid by purchasers in trust under a written escrow agreement with a Hawaii licensed escrow depository. Escrow shall not disburse purchaser deposits to the Developer or on behalf of the Developer prior to closing, except if a sales contract is canceled or if Developer has met certain requirements, which are described below.

5.6.1 Purchaser Deposits Will Not Be Disbursed Before Closing or Conveyance

<input checked="" type="checkbox"/>	<p>The Developer hereby declares by checking the box to the left that it shall use its own funds to complete the construction of the condominium project by the date indicated in Section 5.5 of this report, and the Developer, pursuant to its own analysis and calculations, certifies that it has sufficient funds to complete the construction of the condominium project.</p> <p><i>If this box is checked, Section 5.6.2, which follows below, will not be applicable to the project.</i></p>
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EXHIBIT D

SCHEDULE OF PARKING STALLS

1. The parking stalls are numbered from 1 – 51, as shown on the Condominium Map for the Project.
2. All parking stalls are open (i.e., none of the parking stalls are covered).
3. All parking stalls were initially assigned as limited common elements to the Gazebo Unit (Unit 2), however, as of April 2016, about 35 of the 51 parking stalls have been sold to certain unit owners and assigned as limited common elements to their respective units. The Condominium Declaration has been amended several times for the purpose of assigning parking stalls as limited common elements of certain units. The Developer cannot predict how many parking stalls will remain unassigned and available for use by owners who do not purchase parking stalls.
4. Parking stall nos. 2, 15, 16, 29, 31-36 and 46 are compact stalls.
5. Parking stall nos. 1 and 30 are accessible parking stall.
6. Parking stalls 35, 36, 45 and 46 are presently planned to consist of unpaved or partially unpaved, unmarked parking stalls situated in the locations shown on the Condominium Map for the Project.
7. Parking stalls 28 and 29-36 are located on Easement 1, for sanitary sewer purposes, as shown on Map 5 and described in Land Court Order No. 118020, and therefore may be subject to interruptions in use from time to time.

END OF EXHIBIT D

EXHIBIT N

ESTIMATE OF INITIAL MAINTENANCE FEES

AND

ESTIMATE OF MAINTENANCE FEE DISBURSEMENTS

The amounts set forth in this Exhibit are estimates only. It is very difficult to estimate the costs and expenses of maintaining and operating a condominium project such as Kauai Kailani. Even if the maintenance charges have been accurately estimated, such charges will tend to increase as the improvements age and due to inflation and other factors over which the Developer has little or no control.

For example, insurance, energy and labor costs are currently in flux and can substantially increase over a short period of time. The Developer cannot predict how changes in the economic, social and political conditions in Hawaii, the U.S. and/or globally may impact such costs. Purchasers are aware and acknowledge that the budget, and as a result, each purchaser's maintenance fees, may increase substantially due to increasing costs, including but not limited to insurance, energy and labor costs.

In addition, maintenance charges can vary depending on the services desired by the Owners. Purchasers should examine the budget of maintenance fees to see what services are included in the budgets.

Each purchaser recognizes and acknowledges that the common interests and maintenance fees are subject to change as the project evolves. Such estimates are not intended to be and do not constitute any representation or warranty by the Developer or the Managing Agent, including but not limited to any representation or warranty as to the accuracy of such estimates.

Exhibit 1 to this Exhibit N contains a breakdown of the annual maintenance fees and the monthly estimated cost for each unit.

Exhibit 2 to this Exhibit N contains a reserve study prepared by Barrera and Company. This reserve study is dated February 20, 2013 for the fiscal year ending December 31, 2012, and has not been updated since that date. A new reserve study is being prepared in order to be sure that the Association's reserves are funded as required by Hawaii law.

Pursuant to Section 514B-41, H.R.S., a unit owner, including the developer, shall become obligated for the payment of the share of the common expenses allocated to the owner's unit at the time the certificate of occupancy relating to the owner's unit is issued by the appropriate county agency.

The Real Estate Commission has not reviewed the estimates of maintenance fee assessments and disbursements for their accuracy or sufficiency.

CERTIFICATE

I, the undersigned, being duly sworn on oath, depose and affirm as follows:

1. I am the Vice President of Finance for Castle Resorts & Hotels, Inc., a Hawaii corporation, the Managing Agent for the Kauai Kailani condominium project (the "Project").

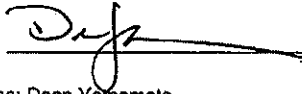
2. I hereby certify that the breakdown of the annual maintenance charges and the monthly estimated cost for each unit in the Project, as set forth in Exhibit 1 attached hereto and hereby incorporated herein by reference, were determined in accordance with §514B-148 of the Hawaii Revised Statutes and Chapter 107 of the Hawaii Administrative Rules, and are reasonable estimates for the one-year period commencing January 1, 2016, based on generally accepted accounting principles.

3. As permitted pursuant to Section 514B-148(b), new associations need not collect estimated reserves until the fiscal year that begins after the association's first annual meeting. The Association did not have its first annual meeting in 2014. In arriving at the figure for "Reserves", Barrera and Company conducted a reserve study, dated February 20, 2013, in accordance with Section 514A-83.6 of the Hawaii Revised Statutes, and the replacement reserve rules, Subchapter 6, Title 16, Chapter 107, Hawaii Administrative Rules, as amended. A copy of the reserve study is attached hereto as Exhibit 2. The budget amount for Reserves is based on such study and is an estimate only.

4. The Budget has been prepared on a cash basis.

DATED: Honolulu, Hawaii, this 11th day of December, 2015

CASTLE RESORTS & HOTELS, INC.,
a Hawaii general partnership

By 

Name: Dean Yamamoto

Its Vice President of Finance

Date: 12/11/15

Exhibit 1 to Exhibit N
2016 Proforma Annual Budget

CASTLE RESORTS & HOTELS
KAUAI KAILANI AOAO
2016 ANNUAL BUDGET

FINAL approved 11.23.15

OPERATING STATEMENT

	2015 BUDGET	2015 PROJECTED	2015 VARIANCE	2016 BUDGET	2015/2016 \$ VARIANCE	2015/2016 % VARIANCE
REVENUES						
MAINTENANCE FEES	442,248	369,972	(72,276)	425,088	(17,160)	-3.88%
INTEREST INCOME	0	0	0	0	0	0.00%
LATE FEES	600	0	(600)	0	(600)	-100.00%
LAUNDRY INCOME	0	0	0	0	0	0.00%
OTHER INCOME	0	0	0	0	0	0.00%
SPECIAL ASSESSMENT	0	0	0	0	0	0.00%
TOTAL REVENUES	442,848	369,972	(72,876)	425,088	(17,760)	-4.01%
OPERATING EXPENSES						
UTILITIES						
ELECTRICITY	21,072	5,493	(15,579)	5,664	(15,408)	-73.12%
GAS	27,000	20,261	(6,639)	20,976	(6,024)	-22.31%
SEWER	27,060	22,512	(4,488)	23,184	(3,816)	-14.13%
WATER	21,600	17,949	(3,651)	18,450	(3,120)	-14.44%
TELEPHONE	1,200	1,054	(146)	1,575	375	31.25%
TV/CABLE	18,420	31,818	13,398	34,320	15,900	86.32%
TOTAL UTILITIES	116,292	99,187	(17,105)	104,199	(12,093)	-10.40%
BUILDING MAINTENANCE						
COMMUNICATIONS-INTERNAL	0	0	0	0	0	0.00%
GROUPS & GROUND SUPPLIES	2,400	3,154	754	3,240	840	35.00%
GROUPS - CONTRACTS	0	3,161	3,161	3,000	3,000	0.00%
ELEVATOR MAINTENANCE	7,200	0	(7,200)	0	(7,200)	-100.00%
PEST CONTROL	4,104	3,830	(274)	4,020	(84)	-2.05%
PEST CONTROL - TERMITES	0	0	0	1,200	1,200	0.00%
POOL	2,400	3,490	1,090	3,600	1,200	50.00%
REFUSE	13,200	11,400	(1,800)	11,724	(1,476)	-11.18%
REPAIRS & PURCHASES	6,000	30,005	24,005	6,000	0	0.00%
WATCHMEN	39,923	15,572	(24,351)	50,508	10,585	26.51%
TOTAL BUILDING MAINTENANCE	75,227	72,612	(2,615)	83,292	5,065	10.52%
PAYROLL EXPENSES						
WAGES - MAINTENANCE	77,640	39,570	(38,070)	50,486	(27,144)	-34.96%
WAGES - MANAGER & ADMIN	26,928	30,172	3,244	30,999	4,071	15.12%
WAGES - GROUNDS	0	0	0	0	0	0.00%
PAYROLL TAXES	12,648	6,938	(5,710)	9,861	(2,787)	-22.04%
WORKERS' COMPENSATION	2,616	2,149	(467)	1,943	(672)	-25.69%
MEDICAL BENEFITS	7,212	5,790	(1,422)	6,292	1,080	14.98%
PAYROLL - OTHER	0	0	0	0	0	0.00%
TOTAL PAYROLL	127,044	84,619	(42,425)	101,592	(25,452)	-20.03%

OPERATING STATEMENT

	2015 BUDGET	2015 PROJECTED	2015 VARIANCE	2016 BUDGET	2015:2016 \$ VARIANCE	2015:2016 % VARIANCE
GENERAL & ADMINISTRATIVE						
AUTOMOBILE EXPENSE	900	0	(900)	900	0	0.00%
INSURANCE	95,067	99,946	4,879	103,638	5,571	9.02%
AUDIT & TAX FEES	3,000	3,000	0	3,000	0	0.00%
LEGAL FEES	600	16,292	15,692	3,000	2,400	-100.00%
OFFICE SUPPLIES	650	202	(448)	600	(50)	-7.69%
MANAGEMENT FEE	18,360	18,364	4	18,732	372	2.03%
BANK CHARGES	180	109	(71)	180	0	0.00%
DUES & SUBSCRIPTION	300	29	(271)	300	0	0.00%
MEETING EXPENSES	2,700	0	(2,700)	1,950	(750)	-27.78%
MISCELLANEOUS EXPENSE	2,500	18,100	15,600	3,704	1,204	48.16%
BAD DEBT EXPENSE	0	0	0	0	0	0.00%
TRAVEL EXPENSES	0	0	0	0	0	0.00%
TAXES - GENERAL ENCISE	24	0	(24)	0	(24)	-100.00%
TOTAL A&G EXPENSE	124,261	156,042	31,781	156,094	11,723	9.43%
TOTAL OPERATING EXPENSE	442,844	412,460	(30,384)	425,057	(17,757)	-4.01%
NET SURPLUS/(DEFICIT)	4	(42,488)	(42,492)	1	(3)	(0)

CASTLE RESORTS & HOTELS
 KAUAI KAILANIADUO
 2016 ANNUAL BUDGET

FINAL approved 11.23.15

CAPITAL RESERVE STATEMENT

	2015 BUDGET	2015 PROJECTED	2015 VARIANCE	2016 BUDGET	2015/2016 \$ VARIANCE	2015/2016 % VARIANCE
REVENUES						
MAINTENANCE FEES - RESERVES	34,596	34,596	0	101,700	67,104	193.96%
INTEREST INCOME - RESERVES	0	0	0	0	0	0.00%
TOTAL CAPITAL RESERVE REVENUES	34,596	34,596	0	101,700	67,104	193.96%
CAPITAL RESERVE EXPENSES						
ASPHALT & CONCRETE SURFACES	0	0	0	12,948	12,948	0.00%
COMMON INTERIOR	0	0	0	0	0	0.00%
DOORS & WINDOWS	0	0	0	0	0	0.00%
ELEVATORS	0	0	0	0	0	0.00%
FENCING & GATES	0	0	0	0	0	0.00%
LANAIS & WALKWAYS	0	0	0	0	0	0.00%
LANDSCAPING	0	0	0	0	0	0.00%
LIGHTING & ELECTRICAL	0	0	0	0	0	0.00%
MECHANICAL EQUIPMENT	0	0	0	0	0	0.00%
MISCELLANEOUS	0	0	0	0	0	0.00%
PAINTING	0	0	0	0	0	0.00%
PLUMBING	0	0	0	7,500	7,500	0.00%
POOLS	0	0	0	0	0	0.00%
ROOFING	0	0	0	0	0	0.00%
TOTAL RESERVE EXPENSES	0	0	0	20,448	20,448	0.00%
NET RESERVE FUNDING	34,596	34,596	0	81,252	46,656	134.80%

FINAL approved 11.23.15

CASTLE RESORTS & HOTELS
KAUAI KAILANI AODE
2016 ANNUAL BUDGET
SCHEDULE OF MAINTENANCE FEES

UNIT #	% COMMON INTEREST	2015 MONTHLY FEE	2016 MAINT FEE	2016 RESERVE FEE	2016 MONTHLY FEE	2016 ANNUAL FEE	2015/2016 \$ INCREASE	2015/2016 % INCREASE
COMM 1	1.0743%	\$ 362.19	\$ 380.56	\$ 91.05	\$ 471.61	\$ 5,659.20	109.42	30.21%
COMM 2	0.1848%	\$ 62.30	\$ 65.47	\$ 15.66	\$ 81.13	\$ 973.50	10.83	30.22%
101	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
102	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
103	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
104	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
105	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
106	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
108	2.3123%	\$ 779.57	\$ 819.11	\$ 195.97	\$ 1,015.05	\$ 12,180.92	235.51	30.21%
109	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
110	2.6634%	\$ 897.94	\$ 943.49	\$ 225.72	\$ 1,169.21	\$ 14,030.47	271.27	30.21%
112	2.4786%	\$ 835.64	\$ 878.02	\$ 210.05	\$ 1,088.08	\$ 13,056.97	252.44	30.21%
113	1.5575%	\$ 525.10	\$ 551.73	\$ 132.00	\$ 683.73	\$ 8,204.72	158.63	30.21%
115	1.5573%	\$ 525.03	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
116	1.5573%	\$ 525.02	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
117	1.5573%	\$ 525.03	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
118	1.5573%	\$ 525.03	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
119	1.5573%	\$ 525.03	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
120	1.5573%	\$ 525.03	\$ 551.66	\$ 131.98	\$ 683.64	\$ 8,203.67	158.61	30.21%
201	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
202	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
203	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
204	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
205	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
206	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
207	2.4179%	\$ 815.17	\$ 856.51	\$ 204.92	\$ 1,061.43	\$ 12,737.21	246.26	30.21%
208	2.4918%	\$ 940.09	\$ 982.70	\$ 211.18	\$ 1,093.88	\$ 13,126.50	253.79	30.21%
209	1.5574%	\$ 525.06	\$ 551.68	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
210	2.4654%	\$ 871.19	\$ 913.35	\$ 208.94	\$ 1,082.29	\$ 12,997.47	251.10	30.21%
211	2.4468%	\$ 824.95	\$ 866.80	\$ 207.37	\$ 1,074.17	\$ 12,889.98	249.22	30.21%
212	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
213	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
214	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
215	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
216	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
217	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
218	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
219	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
220	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
301	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
302	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
303	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
304	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
305	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
306	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
307	2.4179%	\$ 815.17	\$ 856.51	\$ 204.92	\$ 1,061.43	\$ 12,737.21	246.26	30.21%
308	2.4918%	\$ 940.09	\$ 982.70	\$ 211.18	\$ 1,093.88	\$ 13,126.50	253.79	30.21%
309	1.5574%	\$ 525.06	\$ 551.69	\$ 131.99	\$ 683.68	\$ 8,204.20	158.62	30.21%
310	2.4522%	\$ 826.74	\$ 868.67	\$ 207.82	\$ 1,076.49	\$ 12,917.90	249.75	30.21%

FINAL approved 11.23.15

CASTLE RESORTS & HOTELS
KAUAI KAILANI AOUO

2016 ANNUAL BUDGET
SCHEDULE OF MAINTENANCE FEES

UNIT #	% COMMON INTEREST	2015 MONTHLY FEE	2016 MAINT FEE	2016 RESERVE FEE	2016 MONTHLY FEE	2016 ANNUAL FEE	2015/2016 \$ INCREASE	2015/2016 % INCREASE
311	2.4628%	\$ 830.31	\$ 872.42	\$208.72	\$1,081.14	\$12,973.73	250.83	30.21%
312	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
313	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
314	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
315	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
316	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
317	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
318	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
319	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
320	1.5574%	\$ 525.06	\$ 551.69	\$131.99	\$683.68	\$8,204.20	158.62	30.21%
59 0	100.0000%	\$ 33,713.97	\$ 35,423.91	8,475.00	43,898.91	526,788.14	10,184.94	30.21%
				101700			122,219.28	

2016 FEES NEEDED FOR OPERATION	425,088.00
2016 FEES NEEDED FOR RESERVES	101,700.00
2015 NET OPERATING (SURPLUS)/DEFICIT	
TOTAL ASSESSMENTS NEEDED	526,788.00

End of Exhibit 1 to Exhibit N

END OF EXHIBIT N

EXHIBIT O

SUMMARY OF SALES CONTRACT

NOTE: ALL PURCHASERS AND PROSPECTIVE PURCHASERS SHOULD READ WITH CARE ALL PROVISIONS OF THE ESCROW AGREEMENT AND THEIR SALES CONTRACT, AND DISCUSS THEM WITH THEIR LEGAL AND TAX ADVISORS TO BE SURE THAT THEY FULLY UNDERSTAND THESE IMPORTANT LEGAL DOCUMENTS. THE SUMMARIES OF THE ESCROW AGREEMENT AND SALES CONTRACT CONTAINED IN EXHIBITS O AND P ARE NOT INTENDED TO BE A THOROUGH AND EXHAUSTIVE EXPLANATION OF ALL TERMS AND PROVISIONS CONTAINED IN THOSE DOCUMENTS BUT ONLY A SUMMARY OF SOME KEY PROVISIONS OF THOSE AGREEMENTS. IN ADDITION, SOME PROVISIONS OF THE SALES CONTRACT ARE ADDRESSED ELSEWHERE IN THIS PUBLIC REPORT (FOR EXAMPLE, EXHIBIT Q, DEALING WITH WARRANTIES). PURCHASERS AND PROSPECTIVE PURCHASERS MUST REFER TO THE ESCROW AGREEMENT AND THEIR SALES CONTRACT TO DETERMINE THEIR RIGHTS AND OBLIGATIONS AND TO DETERMINE THE SPECIAL MEANING OF TERMS THAT ARE DEFINED IN THE ESCROW AGREEMENT OR THE SALES CONTRACT. IF ANY CONFLICT OR DIFFERENCE EXISTS BETWEEN THE SUMMARIES CONTAINED IN EXHIBITS O, P OR ELSEWHERE IN THIS PUBLIC REPORT ON THE ONE HAND, AND THE ESCROW AGREEMENT AND/OR SALES CONTRACT ON THE OTHER HAND, THE ESCROW AGREEMENT AND/OR SALES CONTRACT WILL GOVERN.

Capitalized terms used in this Exhibit have the meaning given to them in the Kauai Kailani Purchase Agreement (the "Sales Contract").

1. The specimen Sales Contract filed with the State of Hawaii Real Estate Commission provides for, among other things, a description of the Condominium Unit to be sold, a list of any appliances and furnishings included in the sale, the Purchase Price, the closing costs, the time, manner and place of payment, the Purchaser's obligations regarding financing, the Sellers warranties and disclaimers regarding the Condominium Map and the Project, and the remedies of the Seller and of the Purchaser in the event of a default under the Sales Contract.
2. §514B-86, HRS, gives you a thirty-day right to cancel your Sales Contract. The cancellation period may end earlier if you waive it or in certain other circumstances. (See Section 5.8.1 of this Public Report for details). At any time before your Sales Contract becomes binding, either party may terminate it by written notice to the other party. In such event, Seller will instruct Escrow to refund all payments previously made by you, and neither party shall have any other or further liability under the Sales Contract or with respect to the Project.
3. The Seller has entered into an Escrow Agreement, summarized in Exhibit "P", with Old Republic Title & Escrow of Hawaii, Ltd., a Hawaii corporation ("**Escrow**"), covering the deposit with Escrow of all funds paid by you under your Sales Contract and the disbursement of the funds by Escrow. Escrow may charge a cancellation fee on account of escrow services performed, not to exceed \$250. All interest earned on funds in escrow shall be paid to Seller and will not be credited against the Purchase Price or Additional Charges.
4. The Sales Contract requires that you pay the Purchase Price by a series of payments prior to Closing, including an initial payment when you sign the Sales Contract, a second deposit and a third deposit. You must then deposit the remaining balance due on the Date of Pre-Closing or four (4) business days prior to the Scheduled Closing Date, subject to loan requirements set forth in your Sales Contract.
5. Within 10 calendar days after Seller signs your Sales Contract (the "**Effective Date**"), you must submit to Seller a

Qualification Letter, in form and content acceptable to Seller (in Seller's discretion), issued by a Qualification Agent. Only a Qualification Letter issued by a Qualification Agent designated or otherwise approved by Seller will satisfy this obligation.

6. If you apply for a Qualification Letter and diligently pursue your application as required by the Sales Contract, but you cannot obtain one in form and content acceptable to Seller (in Seller's sole, absolute and unfettered discretion) within thirty (30) calendar days after the Effective Date, then both Seller and you have the right to terminate your Sales Contract, in which case Escrow will refund all money previously paid by you less Escrow's cancellation fee and any other expenses actually incurred by reason of your having signed your Sales Contract.

7. If you plan to pay part of the Purchase Price using a mortgage loan, then you will be solely responsible for taking all necessary and appropriate steps as requested from time to time by (A) the Qualification Agent, (B) a lender arranged for, by or through the Qualification Agent, or (C) any other lender that you choose (the applicable one of (A), (B), or (C) being your "**Permanent Lender**") to complete the process of applying for and obtaining a mortgage loan (your "**Permanent Loan**").

8. If (a) you obtain a Qualification Letter acceptable to Seller, and (b) you waive your cancellation right under §514B-86, HRS, or are deemed to have waived it, then you will be responsible to pay the Purchase Price of the Property. **EXCEPT AS PROVIDED IN PARAGRAPH 6, ABOVE, YOUR OBLIGATIONS UNDER YOUR SALES CONTRACT ARE NOT CONTINGENT OR CONDITIONED ON YOUR ABILITY TO SECURE FINANCING FROM A MORTGAGE LENDER OR ON YOUR ABILITY TO SELL YOUR CURRENT RESIDENCE OR ANY OTHER PROPERTY OR ASSETS OR ON OBTAINING THE INTEREST RATE THAT YOU DESIRE.** The sale and purchase of the Property is not contingent upon your ability to retain the interest rate quoted at the time of approval of the Qualification Letter or your Permanent Loan, and you must pay the interest charged by your Permanent Lender at the Close of Escrow. Seller has no responsibility to provide or arrange financing for all or any part of the Purchase Price.

9. The Sales Contract includes Seller disclosures and Buyer acknowledgments of various conditions pertaining to the Project and the sale of the Property, including the following:

a. The Project is a fee simple beachfront condominium project. The beach is public property. The Project currently consists of two (2) buildings constructed in the late 1960s or 1970s by someone other than the Seller. The Orchid Building fronts on the beach; the Plumeria Building does not.

b. Seller has rented or plans to rent the units in the Project, including your Unit, for transient vacation rental purposes until they are sold and the sale has closed. As a result, on the Date of Closing, the Property may be delivered to you subject to the rights of any guest then occupying your Unit (and you agree to accept title to the Property subject to such rights), which occupancy shall not extend more than ten (10) days beyond the Date of Closing. In order to avoid any violation of securities laws, you agree that Seller may keep all amounts paid by guests who are occupying your Unit as of the Date of Closing. You acknowledge and accept that, as of the Date of Closing, your Unit may have been previously occupied, and its Furnishings and lanai(s) used by the occupants of your Unit, such that the Property will no longer be in new and unused condition.

c. Seller or the Architect may make such changes in the plans and specifications as it deems appropriate at any time, to accommodate any in-the-field construction needs as more fully discussed in this Section and in response to recommendations or requirements of local, state or federal governmental or quasi-governmental agencies or applicable utility and/or insurance providers. Such plans and specifications, as they are so amended, are referred to in your Sales Contract as "**Seller's Plans and Specifications**". The changes described above and changes in the dimensions of rooms, lanai(s), in the location of windows, doors, walls, partitions, utility (including, but not limited to, television, internet, intranet, antennae and other technologies equipment and wiring and telephone, if any) lead-ins and outlets, air-conditioning equipment, ducts and components (if any), lighting fixtures and electric panel boxes, and in the general layout of your Unit and its lanai(s), other units, and Project, may be made by Seller or its Architect in their respective discretion. In furtherance of the understanding and agreement stated above, you acknowledge and agree that it is a widely observed construction industry practice for pre-construction plans and specifications for any unit or project to be changed and adjusted from time to time in order to accommodate on-going, "in the field" construction needs and/or "value engineering" or budgetary needs. These changes and adjustments are essential in order to permit all components of the units and the rest of the Project to be integrated into a well-functioning, aesthetically pleasing and economically viable product in an expeditious and cost-effective manner. Because of the foregoing, you acknowledge,

accept and agree that it is to your benefit to allow Seller the flexibility to make such changes in your Unit, its lanai(s), and elsewhere in the Project. You also acknowledge and agree that (i) the plans and specifications for your Unit, its lanai(s), other units and the Project on file with the applicable governmental authorities may not, initially, be identical in detail to Seller's Plans and Specifications, and (ii) because of the day-to-day nature of the changes described in this Section, the plans and specifications on file with applicable governmental authorities may not include some or any of these changes (there being no legal requirement to file all changes with such authorities). As a result of the foregoing, you and Seller both acknowledge and agree: **The Unit, its lanai(s), and the Project may not be constructed in accordance with the plans and specifications on file with applicable governmental authorities. Without limiting the generality of Section 7(e) of the Sales Contract (warranty disclaimers), Seller disclaims and you waive any and all express or implied warranties that construction will be accomplished in compliance with such plans and specifications. Seller has not given and you have not relied on or bargained for any such warranties. In furtherance of the foregoing, in the event of any conflict between the actual construction of your Unit, its lanai(s), and/or any other part of the Project, and that which is set forth in the plans and specifications, you agree that the actual construction shall prevail and to accept your Condominium Unit and the rest of the Project as actually constructed (in lieu of what is set forth in the plans and specifications).**

d. The Unit and/or its lanai(s) may be constructed as a reverse ("mirror image") of that illustrated in the floor and building plan of the applicable model and building (as shown in the Condominium Documents or in any illustrations of the models and/or the Project); and may be "sited" in a position different from that of the applicable models and floor and building plan (or any such illustrations).

e. The Declaration reserves to the Seller extensive rights to remodel and expand the Project (see the description of Phases 3 – 7 in the Declaration). Seller is not currently planning to proceed with the development of Phases 4 – 7 but has the right to do so.

f. Subject to certain limits, Seller can modify the Condominium Documents, the form of Deed and other documents as may be required by law, any title insurance company, any institutional mortgagee or any governmental agency, or as otherwise may be deemed appropriate by Seller.

g. The Architect may increase or decrease the thickness of any wall within your Unit or its lanai(s) even though

this may increase or decrease the size of the Unit and/or its lanai(s). Seller may require alterations to the Project (and the Condominium Documents) to change the configuration of, to alter the number of rooms of, to decrease or increase the size of, or to change the location of any other unit and/or parking area, and to make other minor changes in your Unit, its lanai(s), any of the other units or the common elements of the Project (the "**Common Elements**"). Seller may increase or decrease the number of parking stalls in the Project.

h. Exhibit I to this Public Report lists the encumbrances on title to the Project as of the date stated in it. You should carefully review these encumbrances since some of them may affect your rights and interests in the Project. When you receive a title report in connection with the Closing, you should also read any additional encumbrances shown in it. Your purchase is in all respects subject to the Project Documents and such other encumbrances.

i. Seller has made no promises, representations or assurances to you regarding the pricing, size, design or configuration of any units in the Project other than your Condominium Unit. You acknowledge that as market conditions or other facts change, these matters may be subject to change, including reduction in prices of such other units in the Project or sales incentives offered in connection therewith, and changes in size, design or product type of such other units in the Project. Neither Seller nor the contractor is obligated to agree to provide extras or options for your Unit, its lanai(s), or its Furnishings, including any extras or options shown in any model unit.

j. Neither Seller nor any of its authorized agents, representatives or employees has made any representations, warranties or promises concerning any views, present or future, that may be enjoyed from all or any part of your Unit, its lanai(s) or the Project or concerning any natural light that may be available with respect to your Unit or its lanai(s). The natural light in and views from your Unit, its lanai(s) or Project may change, be affected or obstructed by various factors.

k. Any sum estimated for taxes or insurance affecting your Condominium Unit or the Project may increase or decrease depending upon fluctuation of real property taxes or insurance rates. You should be aware that the government recently increased federal flood insurance rates significantly and is likely to continue to do so in the future.

l. Mold and mold spores are present throughout the environment and residential condominium construction cannot practicably be designed to exclude the introduction of

mold spores. All mold is not necessarily harmful, but certain strains of mold have been found to have adverse health effects on susceptible persons. Seller cannot ensure that mold and mold spores will not be present in the Project, particular given its oceanfront setting. Seller shall not be liable for any actual, special, incidental or consequential damages based on any legal theory whatsoever, including, but not limited to, strict liability, breach of express or implied warranty, negligence or any other legal theory, with respect to the presence and/or existence of molds, mildew and/or microscopic spores at the Project unless caused by the sole negligence or willful misconduct of Seller.

m. The views from each unit, height of the unit above the ground level, exposure to morning, afternoon or evening sun, exposure to prevailing and non-prevailing winds and rain, exposure to other natural and human-made environmental factors (for example, exposure to noise or fumes from vehicular traffic emanating from within the Project or from neighboring driveways, streets or highways [including but not limited to traffic on Kuhio Highway], sounds of crashing surf, pedestrian traffic, child or adult play, related music and activities, noise, dust, smoke, odors, surface water runoff and other things emanating from other units or their lanais, the barbeque areas, the Gazebo, the pools, pool decks, walkways and grounds, lobby areas, other common areas, the ocean, the beach, or other neighboring properties, exercise of traditional native Hawai'ian ceremonies, remodeling, construction and/or landscaping of future phases, construction, landscaping, operation and maintenance of Neighboring Developments, construction and maintenance of electrical transmission and other utility lines and facilities within or in the vicinity of the Project, irrigation of the Project or neighboring properties with reclaimed water, treated effluent, or other non-potable water sources, vog, agricultural uses of neighboring properties [including cattle and livestock grazing, sugar cane milling, burning, harvesting and tending, as well as fertilization and pest and weed control], salt spray from the ocean, and so on), proximity of the units to elevators, trash chutes, and stairwells, proximity of parking stalls to units intended to comply with the Americans With Disabilities Act ("**ADA**"), suitability of the units for various kinds of disabilities, and so on, all differ depending on the orientation, nature, design and location of the unit and the building in which it is located, as well as on other factors. **All units may be subject to some or all of these factors. For the most part Seller has no control over these factors and, in any case, Seller makes no representations or warranties with respect to the presence, absence, impact, lack of impact, intensity, timing, duration, affect, or anything else arising from or relating to any of these kinds of things. Seller has not authorized the Project Broker or anyone else**

to make any such representations or warranties on Seller's behalf.

n. Living in a multi-story, mixed-use resort condominium project entails living in very close proximity to other persons and businesses, with attendant limitations on solitude and privacy. Owners may hear noise from adjacent units within the Project or from the hallways including, but not limited to, noise from showers, bathtubs, sinks, toilets or other sources of running water and/or plumbing fixtures. Occupants of units on the lower floors are likely to hear noise from the units above them, especially since the Project is constructed partly with wood. Also, owners may hear noise from things like the beach, the pools, BBQ areas, vacuum cleaners, stereos or televisions, or from people running, walking, exercising or socializing. The levels of sound, music, noise, odors and other nuisances may be greater for units used for time sharing, fractional ownership or transient vacation rental purposes. Seller has no control over the neighboring properties, the beach, or persons using the beach or the ocean. Changes in neighboring properties or Kuhio Highway also may change noise levels and the amount of pedestrian and vehicular traffic and attendant noise and fumes may increase. Owners may also have light entering the units from lighting in the vicinity and from street lights located in close proximity to the window and doors of the units.

o. Your Sales Contract is not a present transfer of any interest in the Property, but rather is an agreement to transfer in the future. The Sales Contract provides that you waive, relinquish, and subordinate the priority or superiority of any lien or other legal or equitable interest arising under your Sales Contract in favor of the liens or charges on the Project and the security interests of each of the Seller's mortgage lenders (each, a "Lender"), including but not limited to any lien, mortgage or other charge securing any loans made to finance the acquisition of the land, the costs of construction and/or remodeling, any other costs during such construction and/or remodeling, and any and all advances therefor, whether contractual or voluntary, until the final closing and delivery by Seller of your deed to you.

p. Your Sales Contract provides that you consent to Seller's assignment to Seller's Lender, as security, of Seller's interests in your Sales Contract and your deposits with Escrow, and agree that in the event Lender (or its successors in interest) acquires Seller's interest your Sales Contract and/or your deposits pursuant to said assignment, that you will, at Lender's option, perform to, attorn to and recognize Lender (and its successors in interest, if any) as Seller under your Sales Contract.

q. Remodeling of the Plumeria Building has been completed, but not the Orchid Building. If your Unit is in the Orchid Building, then, with some exceptions, Seller promises to substantially complete the remodeling of your Unit and its lanai(s), and any required infrastructure (for example, utility hookups), within one (1) year after your Sales Contract becomes binding (the "**Completion Deadline**").

r. Seller is not remodeling your Unit or its lanai(s) specifically for you, nor to the precise specifications or design of a model or appurtenances, if any, shown to you or visited by you. Seller is remodeling your Unit and its lanai(s) as part of the overall Project. Any model shown to you is provided only for illustration and Seller shall not thereby be required to deliver your Unit or its lanai(s) in exact accordance therewith. None of the appurtenances and furnishings shown in any model is included in your Sales Contract, unless Seller agrees in writing to deliver the same for part of the Purchase Price. The usable or living area, location and configuration of your Unit, its lanai(s), and all improvements of the Project may fluctuate from that shown on the Condominium Map or from that shown or displayed to you in any drawings, plans or models when Seller completes the remodeling and finally places final improvements, in Seller's discretion. The location, size, height and composition of all improvements to be constructed or remodeled as a part of the Project or adjacent thereto shall be determined by Seller in its discretion. Despite models or drawings shown to you, Seller has made no representations, warranties or assurances to you regarding the size, height, location or composition of any improvement to be constructed or remodeled on or adjacent to the Project. Seller may substitute the materials, appliances and other items in your Unit, its lanai(s), and the Project with materials, appliances and other items of substantially equal quality and utility. Such substitutions may include kitchen appliances, household fixtures, electrical outlets and switches, hardware, wall and countertop surfaces, paint, floor coverings, and other similar items. Seller may make such substitutions without adjustment to the Purchase Price. Your consultation by Seller or Seller's agents shall not waive Seller's rights to make any change contemplated or provided herein. If Seller is unable to complete or install in your Unit or its lanai(s) any optional item, decorator item, fixture, furnishing or other improvement, and such failure is caused by circumstances beyond Seller's reasonable control, the Close of Escrow shall not be delayed so long as occupancy of your Unit is approved by the applicable governmental authority. The incomplete items shall be completed by Seller as soon as reasonably possible after the Close of Escrow.

s. In the Sales Contract, you acknowledge that (i) the budget attached as Exhibit N to this Public Report was

prepared by Castle Resorts & Hotels, Inc., and not by the Seller, (ii) that such amounts are only estimates, and (iii) that they are subject to change for various reasons. You accept and approve any such changes. **YOU AGREE THAT SUCH ESTIMATES ARE NOT INTENDED TO BE AND DO NOT CONSTITUTE ANY REPRESENTATION OR WARRANTY BY SELLER, INCLUDING BUT NOT LIMITED TO ANY REPRESENTATION OR WARRANTY AS TO THE ACCURACY OF SUCH ESTIMATES OR FUTURE MAINTENANCE CHARGES AND ASSESSMENTS. YOU FURTHER ACKNOWLEDGE THAT MANAGING AGENTS SEEM TO HAVE A HARD TIME PREDICTING THE MAINTENANCE FEES FOR NEW CONDOMINIUMS AND IT IS COMMON FOR MAINTENANCE CHARGES AND ASSESSMENTS TO BE HIGHER THAN INITIALLY ESTIMATED, FREQUENTLY BY 10 TO 20% OR MORE IN EACH OF THE FIRST FEW YEARS AFTER AN ASSOCIATION STARTS OPERATING. YOU ACCEPT THE RISK THAT THE ACTUAL MAINTENANCE FEES MAY BE HIGHER THAN PROJECTED AND YOU AGREE THAT YOU WILL HAVE NO RIGHT TO CANCEL YOUR SALES CONTRACT OR, AFTER CLOSING, TO RESCIND YOUR PURCHASE OF THE PROPERTY BY REASON OF ANY SUCH INCREASE IN THE MAINTENANCE FEE FOR THE CONDOMINIUM UNIT.**

t. **NO WALL COVERINGS, FLOOR COVERINGS, WINDOW COVERINGS, CHANDELIERS OR OTHER FURNITURE, FURNISHINGS OR APPLIANCES (other than those specified in Exhibit A to your Sales Contract), WHETHER OR NOT INCLUDED IN ANY MODEL UNIT, ADVERTISING MATERIALS OR ARTISTIC RENDERINGS, ARE INCLUDED IN YOUR UNIT OR WITHIN THE PURCHASE PRICE FOR THE PROPERTY.**

u. The photos, building model, vignettes, and computer renderings shown and included in any sales or marketing materials for the Project are for illustrative purposes only and are not intended as a warranty or representation by Seller. Seller is not remodeling any unit to the precise specifications or design of any rendering or other preliminary plans which may be shown or depicted in any sale or marketing materials for the Project or otherwise. Rather Seller is remodeling each unit as part of the overall Project. Any floor plan for a unit in the Project depicted in any sales or marketing materials for the Project is shown for illustration and is not intended to be an exact replica of the unit as it is or will be built or remodeled. The landscaping and certain portions of the surrounding areas or recreation areas shown in the computer or artist's rendering in any sales or marketing materials for the Project include in some instances a depiction which shows

mature landscaping and intentionally omits the neighboring areas for illustrative purposes only and does not reflect how the actual project landscaping MAY look when it has gained maturity or the lack of neighboring areas. None of the appurtenances and furnishings shown or depicted in any unit in any sales or marketing materials for the Project is included with your Condominium Unit unless expressly provided in your Sales Contract.

v. Under §514B-87 of the Act, you have the right to rescind your Sales Contract if there is a material change in the Project. The Act defines "material change" as a change that directly, substantially and adversely affects the use or value of (i) your Unit or its appurtenant limited common elements, or (ii) those amenities of the Project available for your use. The rescission right does not apply, however, to additions, deletions, modifications and reservations including, without limitation, the merger or addition or phasing of the Project, made pursuant to the terms of the Declaration. §514B-3 of the Act defines "material fact" to mean any fact, defect, or condition, past or present, that, to a reasonable person, would be expected to measurably affect the value of the project, unit, or property being offered or proposed to be offered for sale. Under §514B-94(a) of the Act, the Seller may not (i) Knowingly authorize, direct, or aid in the publication, advertisement, distribution, or circulation of any false statement or representation concerning any project offered for sale or lease; or, (2) Issue, circulate, publish, or distribute any advertisement, pamphlet, prospectus, or letter concerning a project that contains any false written statement or is misleading due to the omission of a material fact. A sale made in violation of §514B-94(a) is voidable at the election of the Buyer, but no action may be brought after two years from the date of the sale.

(1) You and Seller agree that it is not the intent or agreement of the parties that you will have an option to rescind your Sales Contract or your purchase of the Property in the event of a downturn in the real estate market. Instead, it is the intent and agreement of the parties that, after your Sales Contract becomes binding, you will bear the risk that the value of the Property will be stagnant or decline. As an essential inducement to Seller to enter into your Sales Contract with you, you and Seller stipulate and agree that: (A) For purposes of Section 514B-94 of the Act, the "date of the sale" shall be the date upon which you waive or are deemed to have waived your Cancellation Right; (B) For purposes of Section 514B-94(a) of the Act, the determination of whether any fact, defect, or condition constitutes a "material fact" (meaning any fact, defect, or condition, past or present, that, to a reasonable person, would be expected to measurably affect the value of the project, unit, or property being offered or proposed to be

offered for sale) will be based on whether the fact, defect or condition would have measurably affected the value as of the date upon which you waive or are deemed to have waived your Cancellation Right; and (C) For purposes of Section 514B-87 of the Act, the determination of whether there has been a "material change" (meaning any change that directly, substantially, and adversely affects the use or value of: (i) your Unit or its appurtenant limited common elements, or (ii) those amenities of the Project available for your use) will be based on whether the change would have directly affected such use or value as of the date upon which you waive or are deemed to have waived your Cancellation Right.

w. Units and lanais situate on the ground floor of the Plumeria Building experienced significant flooding in 2012. The General Contractor has taken certain steps to remove and replace or to repair any damaged drywall and certain common elements in or between such units. However, neither the concrete floor slab nor wood studs and framing were removed or replaced. The Architect's plans for remodeling call for installation of certain improvements intended to prevent flooding from recurring in similar circumstances in the future. These improvements depend for their effectiveness on closing certain openings during periods of heavy rain. **The Seller makes no representations or warranties (1) that such units and common elements are free of any and all damage resulting from such flooding, including the risk of mold and mildew damage, and (2) that any flood prevention measures (i) will be effective; (ii) will prevent all losses; or (iii) will provide the protection that they are designed or intended to provide.** You assume and accept the risk of residual damage from the 2012 flooding and the risk of future flooding and you agree to indemnify and hold Seller harmless from any and all loss, damage and expense suffered or incurred as a result thereof.

x. Under Hawaii law, the beach in front of the Project belongs to the State and is not part of the Project. It is common for Hawaii beaches to suffer erosion due to ocean currents, waves, and other natural forces, and the beach in front of the Project has experienced erosion from time to time. This can change the Project boundaries and reduce the land area of the Project because the State owns the beach up to the high wash of the waves, which moves inland with erosion. After the removal of a wall or "groin" extending into the ocean from a neighbor's property in response to a letter provided by the Hawaii Dept. of Land and Natural Resources in 2013, the beach in front of the Project began experiencing significant erosion. It does not appear that the improvements of the Project have been damaged but the land area of the Project has been reduced. The Developer can make no assurance that there will

be no further erosion. The Board of Directors of the Association has been analyzing various short term and long term alternatives intended to deal with beach erosion, including but not limited to beach nourishment, and so on. The Association filed an emergency application for County approval to place sandbags along portions of the shoreline near the Orchid building in order to protect against further erosion. As of the date of the Public Report, the Developer has offered to pay \$150,000 to the Association for the purpose of defraying any costs incurred by the Association regarding erosion, past, present and future; however, the Association has not yet determined how it desires to proceed and whether it will accept the Developer's offer. The Developer has not promised to pay any sum beyond this with the result that the Association would have to pay any further expenses, and the amount could be significant. The Developer previously disclosed that the Board of Directors of the Association had considered borrowing the funds required to pay any additional costs. Although the 2015 Operating Budget assumed that the Association would obtain a loan and included additional costs of the loan in the estimates of the Common Expenses, the 2016 Operating Budget does not include any such amounts.

y. The Developer purchased an elevator for possible installation in the Orchid Building. However, the Developer concluded that it would be best to defer the installation of the elevator while the Association evaluates alternatives for addressing beach erosion in light of the requirements of Section 8-27.7(b)(3) of the Kauai County Code, which provides: "The applicant shall agree in writing for itself, its successors and assigns that the construction of any erosion control or shoreline hardening structure and/or landscaping shall not be allowed to protect the permitted structure during its life, with the exception of approved beach or dune nourishment fill activities, and landscape planting and irrigation located more than forty (40) feet from the shoreline." Therefore, the elevator is currently in storage. The Board has indicated that it would like for the Developer to proceed with the installation of the elevator and this means that an agreement satisfying the requirements of the County ordinance mentioned above will be signed and will be binding on the Project. Although the 2015 Operating Budget included anticipated expenses for the maintenance and/or repair of an elevator in the Orchid Building, the 2016 Operating Budget does not.

10. In order to accommodate a bulk closing or series of bulk closings of the units by Seller, Seller intends to pre-close a bulk number of units from time to time. Seller will give you a written notice (the "**Seller's Pre-Closing Notice**") that establishes a date (the "**Date of Pre-Closing**") by which you must execute and deliver to Escrow all documents necessary

for closing. You must also pay to Escrow, upon the date set in Seller's Pre-Closing Notice, the entire Purchase Price (except any Mortgage Loan Proceeds), Additional Charges, and all other sums due from you at closing.

11. You or your agent must inspect your Unit, its lanai(s), and its Furnishings on a date and at a time specified by Seller in a written notice to you. Upon completion of such inspection, you must sign or to cause your agent to sign an inspection sheet to be furnished by Seller or the contractor which shall list all defects or damages (except normal wear and tear) to your Unit, its lanai(s), and its Furnishings, if any, as well as any missing items. You agree to accept possession of the Property and proceed with closing your purchase of the Property pursuant to your Sales Contract despite the existence of any such defects, damages or missing items, so long as they do not render your Unit uninhabitable. If you or your agent do not inspect your Unit, its lanai(s), or its Furnishings on the date and time scheduled, you will be deemed to have accepted the Property in its **AS-IS** condition.

12. If, as a result of your act, failure to act or default, Escrow is not in a position to close on the Scheduled Closing Date, and if Seller elects not to terminate your Sales Contract, then (i) you must pay Seller Two Hundred-Fifty Dollars (\$250) per day for each day that the Close of Escrow is delayed, and (ii) all taxes, assessments, and other prorations shall be prorated as though Date of Closing had occurred on the original Scheduled Closing Date.

13. All taxes, assessments and charges of any kind assessable against the land or buildings or units will be prorated as of the Date of Closing in most cases. Seller will pay for its own acknowledgment fees, and one-half (½) of the escrow fee. You must pay all other closing costs.

14. You also must pay (i) a Project start-up fee (for the Association) in an amount fixed by multiplying one month's estimated maintenance fees for the Condominium Unit by 3, plus (ii) one month's estimated maintenance fee for your Condominium Unit.

15. You will be in default under your Sales Contract if (i) you fail to make a payment when due (including non-payment due to failure or refusal of your Permanent Lender to fund your Permanent Loan when required under Section V of your Sales

Contract), or (ii) you fail to keep any of your other promises or to perform any of your other obligations under your Sales Contract, or your fail to do so on time. If you do not cure your default within the time allowed by your Sales Contract then Seller, may terminate your Sales Contract and either may retain all sums paid by you under your Sales Contract, together with all accrued interest thereon, as liquidated damages or pursue any other remedies permitted at law or in equity.

16. Seller will be in default under your Sales Contract if it fails (i) to finish remodeling your Unit on time, or (ii) to perform any other its obligations and such failure continues for twenty (20) days after you give written notice to Seller of such failure or within such additional time as may reasonably be required by Seller to cure its default.

a. If Seller violates §514B-94 of the Act after your Sales Contract becomes a legally binding contract, you agree that your sole remedy (except any remedies that, by law, you cannot waive or be required to waive) shall be rescission of your Sales Contract pursuant to §514B-94 of the Act, pursuant to which you will be entitled, upon reconveyance of the Condominium Unit to Seller (if it has been deeded to you), to recover the Purchase Price actually paid by you, together with interest thereon at the rate of six percent (6%) per annum, and

the amount of any reasonable attorneys' fees and costs that you actually paid, less the amount of any income that you received.

b. If Seller otherwise defaults and does not cure its default, then your sole and exclusive remedy (other than any remedies that, by law, you cannot waive or be required to waive) shall be to terminate your Sales Contract and receive a full refund of all sums paid by you under your Sales Contract, without interest and less any cancellation fee imposed by Escrow.

17. You cannot assign your Sales Contract to anyone else without Seller's written consent. Seller may consent or refuse to consent for any reason or for no reason, in its discretion.

18. When the consent or approval of Seller is referred to in your Sales Contract or the taking of any action under your Sales Contract is subject to the consent or approval of Seller, it shall mean Seller's prior written approval to be given or withheld for any reason or for no reason, in its discretion. Further, any references to Seller's discretion as set forth in your Sales Contract shall mean Seller's sole, absolute and unfettered discretion to the exclusion of any other person or entity unless specifically provided otherwise.

END OF EXHIBIT O

EXHIBIT R

Replacement Sections 1.17 and 1.18

Addition of Section 1.19

- 1.17 EROSION.** Under Hawaii law, the beach in front of the Project belongs to the State and is not part of the Project. It is common for Hawaii beaches to suffer erosion due to ocean currents, waves, and other natural forces, and the beach in front of the Project has experienced erosion from time to time. This can change the Project boundaries and reduce the land area of the Project because the State owns the beach up to the high wash of the waves, which moves inland with erosion. After the removal of a wall or "groin" extending into the ocean from a neighbor's property in response to a letter provided by the Hawaii Dept. of Land and Natural Resources in 2013, the beach in front of the Project began experiencing significant erosion. It does not appear that the improvements of the Project have been damaged but the land area of the Project has been reduced. The Developer can make no assurance that there will be no further erosion. The Board of Directors of the Association has been analyzing various short term and long term alternatives intended to deal with beach erosion, including but not limited to beach nourishment and so on. The Association filed an emergency application for County approval to place sandbags along portions of the shoreline near the Orchid building in order to protect against further erosion. Please see letter from Department of Land and Natural Resources regarding this issue attached as Exhibit 3 to this Exhibit R. As of the date of this Public Report, the Developer has offered to pay \$150,000 to the Association for the purpose of defraying any costs incurred by the Association regarding erosion, past, present and future; however, the Association has not yet determined how it desires to proceed and whether it will accept the Developer's offer. The Developer has not promised to pay any sum beyond this with the result that the Association would have to pay any further expenses, and the amount could be significant. The Developer previously disclosed that the Board of Directors of the Association had considered borrowing the funds required to pay any additional costs. Although the 2015 Operating Budget assumed that the Association would obtain a loan and included additional costs of the loan in the estimates of the Common Expenses, the 2016 Operating Budget does not include any such amounts.
- 1.18 ELEVATOR.** The Developer purchased an elevator for possible installation in the Orchid Building. However, the Developer concluded that it would be best to defer the installation of the elevator while the Association evaluates alternatives for addressing beach erosion in light of the requirements of Section 8-27.7(b)(3) of the Kauai County Code, which provides: "The applicant shall agree in writing for itself, its successors and assigns that the construction of any erosion control or shoreline hardening structure and/or landscaping shall not be allowed to protect the permitted structure during its life, with the exception of approved beach or dune nourishment fill activities, and landscape planting and irrigation located more than forty (40) feet from the shoreline." Therefore, the elevator is currently in storage. The Board has indicated that it would like for the Developer to proceed with the installation of the elevator and this means that an agreement satisfying the requirements of the County ordinance mentioned above will be signed and will be binding on the Project. Although the 2015 Operating Budget included anticipated expenses for the maintenance and/or repair of an elevator in the Orchid Building, the 2016 Operating Budget does not.
- 1.19 MISCELLANEOUS.** The Board of Directors has been working with the Developer on the installation of landscaping and the completion of certain corrections and repairs to the Project. A new reserve study is being prepared in order to be sure that the Association's reserves are funded as required by Hawaii law.

Exhibit 3 to Exhibit R

DAVID Y. IGE
GOVERNOR OF
HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCES MANAGEMENT

KEKOA KALUHIWA
FIRST DEPUTY

JEFFREY T. PEARSON, P.E.
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCES MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT

ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

DLNR:OCCL:NF

Emer. CDUA KA-17-11

Ron Agor
460 Ena Road, Suite 303
Honolulu, HI 96815

OCT 14 2016

SUBJECT: Request for Emergency Temporary Shoreline Protection at Kauai Kailani Condominiums Located at 4-856 Kuhio Highway, Kapaa, Kauai; Tax Map Key (4) 4-3-009:050

Dear Mr. Agor,

The Department of Land and Natural Resources (DLNR) received your request on September 21, 2016 regarding the temporary protection of the subject property located at TMK (4) 4-3-009:050. You are requesting authorization to install a temporary sand bag structure along approximately 90 feet of the shoreline to protect the southern portion of the Kauai Kailani Condominiums.

Previously, you requested to install temporary sandbags on approximately 1,500 square feet of the shoreline (DLNR Ref. Emergency CDUA KA-17-08). The Department was unable to authorize the proposed erosion control structure at that time and recommended that you consider a proposal to protect the threatened southern portion of the condominium complex. The Department also suggested you begin working toward a long-term solution to the ongoing erosion fronting the subject property.

You note in your request that recent and on-going wave action in the area has resulted in as much as ten feet of shoreline recession fronting the subject property over the last three months. You also note that as of September 6, 2016, the eroded shoreline is within thirteen (13) feet of the southern portion of the existing three-story condominium complex on the subject property. According to the Wailua Bay, Kauai Shoreline Study Erosion Maps developed by the Coastal Geology Group at the University of Hawaii at Manoa, the shoreline fronting the subject property is experiencing erosion rates of 0.5 to 0.8 feet per year¹.

The DLNR understands that the proposed activities will occur on State land, seaward of where the shoreline would likely be determined based on Hawaii Administrative Rules (HAR) §13-222 *Shoreline Certifications*. The proposed plan is to install temporary sand bags along the erosion scarp along approximately 90 feet of the shoreline fronting the southern portion of the subject

¹ Wailua Bay, Kauai Shoreline Study Erosion Maps. University of Hawaii Coastal Geology Group. Hawaii Coastal Erosion Website: <http://www.soest.hawaii.edu/coasts/kauiacounty/KCounty.html>.

property. You will use a small excavator to clean the scarp area and place sand along the scarp. You plan to place approximately 23 cubic yards of the existing beach sand against the scarp to form a 1:1 slope and install earth anchors at the top of the bank at 24 inch intervals. The earth anchors will be tied to continuous 4x4 pieces of redwood. You will place a geotextile sea blanket over the 1:1 slope of placed sand and then place approximately 400 biodegradable sand bags measuring 11 inches wide by 18 inches long by 9 inches thick filled with existing beach sand. You will place three rows of sand bags approximately 11 feet to 12 feet away from the eroded scarp and then place the remaining bags on the 1:1 slope. One row of sand bags will be placed at the top of the bank, level with the existing grade. The sea blanket will continue from under the sand bags and be placed on top to encapsulate the entire layer of sand bags. The sea blanket will then be wrapped and tied around the redwood and blankets will be sewn together. You note that the proposed structure covers an area of approximately 550 square feet along 90 feet of the shoreline.

The Department is unable to authorize the proposed erosion control structure at this time. We have reviewed ground-based photographs of the site from the past several years. Although there is evidence of recent erosion in the vicinity of the beach heliotrope and coconut tree fronting the southern portion of the condominium complex, it does not appear that the building is in imminent danger of destruction or severe damage due to erosion in this low energy shoreline environment. We therefore propose a more modest erosion response to protect the base of the beach heliotrope and coconut tree. We would be amenable to the placement of biodegradable sand bags around the base of the beach heliotrope and coconut tree fronting the southern portion of the condominium complex. If you wish to continue with a modest temporary shore protection structure, please revise your plan and resubmit it for our review.

Should you have any questions pertaining to this letter, please contact Natalie Farinholt at (808) 587-0399 or Natalie.A.Farinholt@Hawaii.gov in the Office of Conservation and Coastal Lands.

Sincerely,



Suzanne D. Case, CHAIRPERSON
Board of Land and Natural Resources

CC: KDLO
County of Kauai, Planning Department