

**COMBINED MEETING OF THE BOARDS OF DIRECTORS
MONTEREY DUNES COLONY ASSOCIATION
AND
MONTEREY DUNES COLONY MUTUAL WATER
ASSOCIATION
July 21, 2007**

PRESENT

Ellen Michaels, President
Frank Williams, Vice President
Marty Deggeller, Treasurer
George Maciag, Director
Jeff Schwartz, Director
Tom Bugary, Secretary and General Manager

ABSENT

None

WELCOME

Ellen Michaels called the meeting to order at 10:10 AM, July 21, 2007 at the Monterey Dunes Colony Clubhouse.

MINUTES

The Board reviewed the minutes of the May 19, 2007 Directors meeting. It was M/S/C to approve the minutes as written.

TREASURER'S REPORT

Marty Deggeller presented his written report for May and June 2007. This report is attached to and made part of these minutes. Marty pointed out that there was a considerable increase in the reserve fund in June, as compared to May, due to prepaid reserve assessments. Marty also reported that the payments to the Capital Replacement Fund of \$16,320.00 per month and \$3,750.00 per month to the Mutual Water Association were current.

FINANCE COMMITTEE REPORT

John Gentry reported that the committee had met at 9:00 that morning with Joelyn Carr-Fingerle, CPA, to review the finances of the colony for FY 2006-2007. The committee also discussed portions of the annual audit report.

ANNUAL AUDIT REPORT

Joelyn Carr-Fingerle, CPA, distributed copies of her audit for both the Colony and the Water Company. Additionally, Joelyn gave a verbal report in which she stated that this is the earliest that the fiscal year end audit has been completed for both companies.

MDCA Audit

The Association's operating funds ended the fiscal year at \$4,215 and the reserves at \$15,161.

Joelyn explained that our reserve funds, less prepaid assessments, actually had a negative balance on June 30th of \$19,451. This was due to last year's negative balance being larger than this year's profit. However, due to prepaid assessments, the actual balance was considerable and in the black.

Joelyn reported that she did not find any evidence of material weakness, collusion or intent to defraud and complemented management for a well-designed accounting system with significant internal controls. Joelyn did note for record that the American Institute of Certified Public Accountants (AICPA) recently instituted new guidelines mandating that a control deficiency exists if a transaction could be handled from start to finish by one person, or if the auditor needs to make any journal entries, such as the tax provision. While this standard would be appropriate for large companies with accounting departments, it is impractical for a small association, such as MDCA. Therefore the association was identified with a internal control deficiency, but without recommendation or reasonable remedy.

MDCMWA Audit

The Water Company's operating account ended the fiscal year at \$(2,312) and the reserves at \$(30,060).

Joelyn noted that these deficits fund balances were mainly due to depreciation expense in the amount of \$35,184.

ENVIRONMENTAL CONTROL COMMITTEE (ECC) REPORT

Mary Jansing Balgooyen, committee chair, gave a verbal report. Mary stated that the ECC has had two meetings since she last reported to the Board – the first meeting was in San Jose at Ellen Michael's office on June 13, 2007 and the second meeting was on July 16, 2007, onsite at Unit #292. At the meeting on June 13, 2007:

- ◆ Unit #214 requested to replace their existing (3) oceanside living room windows with one large picture window. This request was approved with stipulations.
- ◆ Unit #232 requested to remove a small acacia tree from the common area outside of their courtyard area and replace it with a ceanothus. This request was approved with stipulations.
- ◆ Unit #292 made a PowerPoint presentation in an effort to resolve a line-of-site privacy issue with their neighbor. Although the issue was not resolved, the

Committee made the following recommendations to Unit #292:

- Restore a developer-installed trellis system which would help obstruct a direct line-of-sight between the units.
- Redesign the courtyard deck to establish an immediate step-up/down at the entrance which would somewhat mitigate the line of sight into their neighbor's living room.
- Raise the height of their courtyard fence to prevent a line-of-sight into the neighboring unit.

At the meeting on July 16, the Committee took the following actions:

- ◆ The Committee again discussed the same privacy issues with unit #292 that they had discussed in the previous meeting. Although many possible solutions were discussed, nothing definitive resulted from this meeting.

GENERAL MANAGERS REPORT

Deck and Fence Replacements

The Association replaced 22 unit decks this fiscal year, (July 1, 2006 through June 30, 2007). Decks completed this fiscal year are associated with units 120, 128 (x2), 162, 170, 172, 174, 182, 186 (x3), 214 (x2), 216 (x2), 246 (x2), 254 (x2), 290, and 298 (x2). The association was budgeted for a total of 15 replacements, however, due to necessity, 5 additional association decks were replaced as well as two owner decks. Both owner decks were charged back to the homeowner for both materials and labor.

The Association has replaced courtyard fences at units 120, 172, 174, 180, 252, 256, 298, 310 and a refuse enclosure at 252-260. Management was scheduled to complete 1000 lf of fencing with associated gates and hardware this fiscal year, however, due to winter storm damage, we replaced over 1,800 lf @ approximately \$45.00 lf. This caused our reserve fence budget line to end the fiscal year over budget.

Window and Entry Door Replacement

The Association has completed 152 window replacements this year. We were scheduled to replace 145 windows; however there were some additional warranty replacements that required attention in this year's budget. Management continues to repair rotted framing and deck tie-ins as they are identified during window and deck replacements. Association work crews have installed 11 entry doors this fiscal year.

Re-siding

Completed since July 1, 2006: Units 120, 162, 164, 166, 168, 172, 186, 214, 216, 246, 248, 250, 252, 254, 256, 264, 266, 288, 290, 298, 312, 318, 322, 324, 330 and 340. Units 174, 252, 314 and 320 had sections of sidewall replaced. Garages at units 210-216, 246-250, 252-258, 256-262, 288-292, 294-298, 300-304, and 306-310 have also been resided.

Management is faced with significant cost increases in treated cedar sidewall shingles due to the scarcity of the wood and increased demand. Winter storms and shortages of logs continue to be the cause of an inflated market. Rather than purchase shingles by the pallet at \$318. a square from local distributors, or by the truckload at \$285. a square (\$95. over the cost per square last winter), I elected to purchase an interim, half-truck of 100 square at the current bulk rate of \$285 a square. This will give us a little time to let the price come down a little before my next purchase this coming fall. At Monterey Dunes, we use Class B fire retardant Shingles that are Blue Label Number 1's. It is very difficult at this time to get this quality of a shingle at a decent price so we will wait on future purchases for the market to stabilize.

Electrical Panel Replacements

Management continues to work with electricians on the property who are replacing faulty electrical sub-panels in the units. We will be recounting the number of Federal Pacific Panels that remain in units on the property in September.

Fire Damage Report for Garages 288-290-292

On July 2, 2007 at approximately 1:15 AM, a fire broke out in the garage at Unit 292. The cause of the accident was undetermined and the investigation was turned over to the insurance company for settlement. The association carries a \$25,000. deductible on its insurance policy. This deductible will cost the homeowners approximately \$208 each. Management has already completed much of the cleanup and damaged tree removal and will continue to complete as much of the rebuild process as possible to reduce some of this deductible.

1. July 2, 2007 Fire started around 1:15 AM
2. July 3, 2007 Fire Chief Roberson and North County Fire Department start to investigate the burn site.
3. July 5, 2007 Kirt Murotsune, Tech Specialist from Travelers Insurance visited the site and called in his own investigator to work with the County Fire Department. He also measured the site for initial estimates for payment of claim.
4. July 13, 2007 Site cleared for cleanup by Fire Department and Insurance Investigator. Per a phone conversation with the insurance investigator, the fire will be ruled an accident. Site cleared for cleanup.
5. July 16, 2007 Association crews start cleanup of site.
6. July 16, 2007 Smith's Tree Service, arborist Brian Jacobson, inspects damaged trees at site of fire. Association crews remove damaged trees.
7. Insurance Company sends preliminary payment of \$31K based on insurance cost estimates.

We are now waiting for a secondary inspection by the Insurance Company to evaluate other damage to the property now that the burn site and pad are cleaned up. I will update this report at each director's meeting until the completion of this rebuild.

Insurance Preliminaries 2007-2008

Our insurance broker has sent us preliminary costs for insurance for next year. The premiums for the quoted policies have stabilized somewhat, however, two key insurance quotes; the earthquake and directors and officer's policies are not yet available. The broker has been trying to get the carriers to release these quotes, within a reasonable amount of time, while the carriers, (historically) try to wait until the last minute to quote premium increases. Our DIC and D&O policies could have substantial increases in premiums for next year depending on the market. I will get these premium costs and options for policy renewals to the Board via a conference call as soon as they are quoted next week.

After review of the insurance budget estimates for 2007-2008 prepared by our insurance broker, it was M/S/C to approve the quoted insurance estimates, with two stipulations:

- 1. The current level of DIC coverage be maintained, and*
- 2. D&O coverage to be determined at a later date.*

Fireplace Inspections

The Association has again contracted with Cypress Chimney Sweeps for annual fireplace inspections. The inspections start on June 15, 2007 with a projected completion date of November 30, 2007. Cypress Chimney Sweeps did not increase inspection and cleaning fees for the 2007 season. As of this date, there have been 9 red tags issued by the inspector, all for unserviceable chimney caps. Of the 9 red tags, 7 have already been corrected with the remaining 2 waiting for new caps to arrive.

Warranty Fumigation

Over the past 2 months, Terminix tented and fumigated units 252, 254, 256, 318, 320, 322 and garages at units 252, 258, 260 and 262. Units 246, 248, 250, 324, 326 and 328 are pending fumigation re-treatment. Homeowners will be notified once we receive available dates for fumigation from the Salinas Terminix office.

Annual Septic Services and Repairs

Tom's Septic Service will be working on the property the week of July 23, 2007, servicing the 9 septic and leeching systems throughout the colony.

MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION

Consumer Confidence Report

The annual water quality report, (Consumer Confidence Report) was sent to the members on June 15, 2007. There were no discrepancies associated with the quality of the water at Monterey Dunes during the 2006 calendar year.

Water Conservation – Oriented Billing

During the May and June billing periods, there were no units that exceeded the Tier 1 conservation zone.

OLD BUSINESS

Satellite TV (building) upgrades

The Board had previously discussed satellite upgrades and had decided that any owner wishing an upgrade would be responsible for the additional cost. Although this solution to the satellite upgrade issue sounds good in theory, it does not work in practical situations due to the fact that each homeowner does not have their own dish – neighbors within a building have to share a dish for the same type of service, i.e. Dish, Direct, or HD. In a practical situation, the original upgrade subscriber should not have to have maintenance and financial responsibility for additional subscribers using the same dish.

After considerable discussion, the Board elected to create an Ad Hoc Satellite Committee to research the issue and make recommendations to the Board. The Ad Hoc Satellite Committee will consist of Dale Christenson, unit #300, Terry Opdendyk, unit #188 and Tom Bugary, General Manager. Tom Little from American Satellite will serve as a paid consultant to the Committee.

Record Date for nominations for the 2007-2008 Term

Mary Jansing Balgooyen, Nominating Committee chair, reported that the current Board of Directors has agreed to serve again for the 2007-2008 term. No additional nominations were received as of the cut-off date for nominations on July 19, 2007, therefore, the board will serve through October 17, 2008.

Sauna Access Interim Policy Update

Under the current interim sauna policy, homeowners could use the sauna at any time, but had to schedule with management or with security to unlock the rooms in advance. Tom reported that since this policy was put into effect, management has experienced no damage to the saunas and there have been no complaints, with the exception of one homeowner, who voiced a concern that it seemed that the board was excluding the renters and guests from this facility. The homeowner stated that he would rather see the facility closed rather than exclude any one class from using the facility over another. After a lengthy discussion where the board discussed vandalism, safety, and liability issues, the board elected to modify the policy to allow homeowners *and their immediate family member's* access to the saunas, much the same as the pet policy, where homeowners and family members are the only group of people allowed to have pets in the Colony. The board instructed management to update the rules policy to reflect this change, including that no family member under the age of 18 is permitted in the sauna without an adult, over the age of 21, present in the facility for the duration of the visit.

NEW BUSINESS

Review/discuss/Adopt Revised Vehicle Rules

Ellen commented that the vehicle section of the MDCA Rules and Schedule of Fines have been revised and rewritten to comply with the recently changed vehicle code. The Board M/S/C to

adopt these rules and have them sent to the homeowners.

Appoint Ad Hoc Satellite Committee

Addressed in the Old Business section under “Satellite TV (building) Upgrades.”

WATER COMPANY BUSINESS

Addressed in the Manager’s Report.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:30 a.m. The next meeting of the Board of Directors will be September 1, 2007 at 10:00 A.M.

EXECUTIVE SESSION

Hearings on waiving late fees

FOR THE BOARD OF DIRECTORS:

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Thomas J. Bugary, CMCA, CCAM
General Manager and Secretary

Treasurer's Report MAY AND JUNE

This report covers our fiscal year budget status through June 30, 2007.

Account Balances as of May 31 and June 30, 2007 are:

	<u>May</u>	<u>June</u>
Union Bank Reserve	\$ 86,451.82	\$337,890.69
Union Bank Operating	\$113,543.71	\$128,503.16
Union Bank Investment Acct	\$ 7,883.17	\$ 7,888.16
Community Bank Petty Cash	\$ 1,107.99	\$ 219.29
Union Bank Water Operating	\$ 8,830.23	\$ 21,675.53
Union Bank Water Reserve	\$ 87,411.55	\$ 76,873.93

Payments to the Capital Replacement Fund (\$16,320.00 per month) are current.

Payments to the Mutual Water Association (\$3,750.00 per month) are current.

Respectfully Submitted,

Martin E Deggeller

Martin E. Deggeller, Treasurer