COMBINED MEETING OF THE BOARDS OF DIRECTORS
MONTEREY DUNES COLONY ASSOCIATION
AND
MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION
August 19, 2006

PRESENT

Ellen Michaels, President
Marty Deggeller, Treasurer
Frank Williams, Vice-President
John Steinhart, Director
Tom Bugary, Secretary and General Manager

ABSENT

Jeff Schwartz, Director

WELCOME

Ellen Michaels called the meeting to order at 10:00 AM, August 19, 2006 at the Monterey Dunes Colony Clubhouse.

MINUTES

The Board reviewed the minutes of both the June 17, 2006 Board meeting and the July 24, 2006 meeting (via teleconference). It was M/S/C to approve both of the minutes as written.

ANNOUNCEMENTS

Ellen Michaels announced that the closing date for accepting nominations for seats on the Board for the 2006-2007 term was July 19, 2006. There were 5 nominations for 5 open seats. Since there were no other nominations for FY 2006-2007 Board, other than the 5-nominated candidates, all 5 were elected by acclamation and will assume their duties on October 21, 2006. The Directors for the 2006-2007 term are: Ellen Michaels, Frank Williams, Marty Deggeller, Jeff Schwartz, and George Maciag.

TREASURER'S REPORT

Marty Deggeller, Treasurer stated that the Finance Committee met with Joelyn Carr-Fingerle to discuss her 2005-2006 audit. Marty stated that John Gentry would present the gist of the audit under the Finance Committee, however, there were two comments in the report regarding account balances which warranted comments by him. 1) The operating cash account had approximately $100K at the end of the fiscal year (June 30, 2006); a large part of these funds will be used to pay for the master insurance policy premiums for FY 2006-2007. After paying these premiums, it will be a little tight for the first part of the year but the account will become solid again as the year progresses. 2) The Reserve Account increased dramatically from May to June; the reason for this is due to special assessments being paid ahead of time and falling into this year's money. In lieu of reading the account balances from the Treasurer's Report, Marty stated that the financial reports for both June and July are attached to the minutes. Additionally, Marty stated 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, chair, reported that the Finance Committee had met the previous day with our auditor, Joelyn Carr Fingerle, CPA, to discuss her FY 2005-2006 draft audit. After the presentation by the auditor, and discussions concerning the report, the Committee recommends that the Board accept the draft audit as written.

The Board M/S/C to accept the 2005-2006 Annual Report for both the Association and Water Company.

John reported that the Committee reviewed the finances for the fiscal year, ending June 30, 2006. *The operating budget* ended the year with a $55K deficit. The reason for this deficit was the unbudgeted, capital improvement expense of the new recreation area approved by the Board last year. Additionally, *the reserve budget* ended the fiscal year with a $94K deficit. John explained that many projects that were scheduled in the 03-04 and 04-05 budget were completed in 2005-2006. All completed projects were within the overall dollar limits of the 5-year budget.

John commented that at the time the FY 2006-2007 budget was prepared, (in February 2006), the exact cost of the Association's Master Insurance Policies were unknown and the premiums were estimated based on the previous years level of coverage as well as market trends. We now know that, not only did the premiums for earthquake insurance more than double in cost, and for less coverage, but also the Association elected to increase the flood insurance coverage, converting from a commercial line to 41 separate building FEMA policies. This means that we will end fiscal year 2006-2007 with at least a $20K deficit unless we somehow recognize efficiencies in our operations elsewhere in the budget.

As an addendum to John's report, Frank Williams commented that as part of the annual report each year, the auditor prepares a management letter for the Board. The general purpose of the management letter is our accountant's assessment of the overall ability of management to safeguard Association assets and to recommend to the Board any improvements or changes to our internal control procedures. Frank stated that it is rare, if ever that auditors do not recommend some sort of improvement, or change during the course of the audit. This years management letter had no comments, recommendations or concerns. Frank also commented that he felt this letter was an assurance to the homeowners that the finances of the Colony were being managed efficiently.

ENVIRONMENTAL CONTROL COMMITTEE (ECC) REPORT

Mary Jansing Balgooyen, Chair of the ECC, gave a verbal report. She stated that there had not been an ECC meeting since the last Board meeting; however, there was a meeting scheduled for this afternoon, immediately following the Board meeting.

ADHOC RULES COMMITTEE REPORT

Mary Jansing Balgooyen, Chair reported that the committee's task was to review the current Association rules and CC&R's, and to come up with recommendations to the Board on how to control the overcrowding of units. After discussion, the committee decided to recommend that the rules repeat the CC&R, which state that the maximum number of persons who may occupy a residence may not exceed two persons per bedroom, plus one additional person, (Article 4. (4.1)). The suggested penalty for violating this provision would be up to $200.00 and/or the loss of common area rights and privileges for a period of up to 7 days for each violation.

On the subject of rentals, the committee recommended that the rules paraphrase Article 4. (4.2). In the case of short-term rentals of less than 30 days, the homeowner must notify management of, (at a minimum, one day in advance of any rental), the name of the tenant and the names of the tenant's party, who will be occupying the residence. In the case of long-term rentals, the homeowner must provide the board with a copy of the signed lease or rental agreement (at a minimum, one day in advance of the lease). The lease or rental agreement must state that the occupancy is subject to the provisions of the Governing Documents and that the breach of any provision of the Governing Documents shall constitute a default under the lease or rental agreement. The suggested penalty stated in the rules for violating these provisions would be the loss of common area rights and privileges for a period up to an equal amount of time of the violation.

A question arose about the CC&R provision requiring homeowners to let the Association know the names of tenants. Mary stated that one reason for the requirement is that management should know who is occupying the property at any given time and, when a unit is rented, who is using the facilities in the place of the homeowner.

In response to a question about how occupancy would be monitored, Tom responded that the responsibility of monitoring belongs to the MDCA staff. Staff maintains the owners' list and, in the case of rental units, is informed of the names of tenants, whether long-term or short-term. Homeowners provide that information and, in some cases, the information comes from the homeowners' rental agencies. The security guard has this information and uses it for everything from letting authorized persons in the gate, assisting with directions, using the common facilities and unlocking units in the event of a lockout. With temporary occupants (short-term tenants), staff monitors overcrowding by noting how many names are submitted and following through when there are visible signs of overcrowding (too many vehicles, excessive noise, numbers of people) suggest under-reporting of occupants. Persistent problems in a unit would lead to CC&R and rule enforcement.

After additional discussion, the Board M/S/C to accept the rules recommended by the committee. To the extent the rules simply repeat or paraphrase the CC&R, the rules are immediately in effect. Related fines go into effect when the board gives the homeowners notice that they were officially adopted by the board at a meeting held at least 30 days after the proposed fines were sent to the homeowners for comment.

GENERAL MANAGERS REPORT

The Manager made the following report:

Deck and Fence Replacements

The Association replaced 2 of the 15 scheduled unit decks identified for replacement this fiscal year, (July 1, 2006 through June 30, 2007).

The Association has not yet started fence replacements this fiscal year. We are scheduled to replace 1000 lf of fencing with associated gates and hardware.

Window Replacement Project

Management has completed 12 of 145 replacement window installations projected for this fiscal year.

Re-siding Project and Entry Door Replacement

We completed siding units 264, 266, 288 and 340. Association work crews also installed entry doors on units 170 and 264.

Electrical and Smoke Detector Inspections

As an action item from the last directors meeting, management sent letters to all homeowners who did not have at least one working smoke detector in their unit, requesting written confirmation that the necessary detectors were either installed or repaired and the home was protected to 1973 building code requirements. After being noticed, with a one-week suspense, the Association staff entered those units who had not responded and installed or repaired the unit smoke alarms to meet minimum code specifications.

Management is in the process of completing the replacement/repair of oceanside outlets on the electrical inspection deficiency list. There were 29 oceanside outlets on the repair list, most of which have already been repaired or replaced as of the date of this report.
We are still working with an electrician to get a bulk-rate quote for changing out the Federal Pacific Electric Panels. Since each panel is somewhat different (different size and number of breakers installed in each panel unique to the units electrical configuration). The electrician will set a base price for the panel and installation, with each unit being charged for the breakers that are required for their specific electrical configuration. There may also be additional charges for any reframing or removal of shelving that blocks the replacement of the panel. Homeowners with Federal Pacific Panels will be notified of the availability of this service. Homeowners can elect to use this service or another electrician to correct this panel deficiency.

As an action item from the last directors meeting, management is setting up an inspection/battery replacement schedule for all smoke detectors in the 120 units on the property. Association staff will inspect each unit, test and clean smoke alarms, and replace all batteries regardless of when they were last changed. We will also make recommendations to each homeowner, based on advice from the North Monterey County Fire Marshal, as to any upgrades homeowners can elect to install to further protect their homes. By changing all batteries in the detectors, management can correctly estimate the next replacement cycle and ensure there is little chance of smoke alarm failure due to dead batteries. Homeowners will be notified as to the inspection schedule tentatively set for December 2006 or early January 2007.

Road Chip Seal Project

The chipseal project that started on May 31, 2006, was completed in July, after a final sweeping of chips and reinstalling the road divider markers. The project was on budget.

Warranty Fumigation

Management is scheduling units 162,164 and 166 for fumigation. A re-infestation of drywood termites was discovered during construction work on unit 162. Management will be working with the unit owners to schedule the fumigation process.

Annual Chimney Inspections

Annual inspections started on June 20, 2006 and are projected for completion no later than November 30, 2006. As of the date of this report, Cypress Sweeps has red-tagged 4 units and identified several others for chimney repairs.

WATER COMPANY

Annual Discharger Report to the Water Resources Agency

The annual discharger report to the Water Resources Agency was submitted on August 4, 2006. In Comparison to water conservation data in 2005, the colony again used less water per unit in 2006 with this year's water extraction and discharge data showing a reduced consumption of approximately 16%, similar to conservation trends over the past 3 years. As of this date, no unit has been billed for excess water consumption under the tier 2, or tier 3 water conservation guidelines since the beginning of the program 3-years ago.

Water Conservation – Oriented Billing

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

OLD BUSINESS

Changes to the Association Earthquake Insurance Coverage

In a teleconference meeting of the directors on July 24, 2006, the board discussed options available to the colony for earthquake insurance for the 06-07 fiscal year. Options available to the Colony:

Limits of Insurance	Insurance Carrier	Deductible	06-07 Premium
$5,000,000 Loss Limit	Golden Bear Insurance Company Rated "B+", Admitted	10% per Bldg	$37,507.00
$10,000,000 Loss Limit	Golden Bear Insurance Company Rated "B+", Admitted Essex Insurance Company Rated "A", Non Admitted	10% per Bldg	$49,674.25
$5,000,000 Loss Limit	Empire/Clarendon Rated "A", Non Admitted	20% per Bldg	$51,887.50
$10,000,000 Loss Limit	Empire/Clarendon Rated "A" Non Admitted	20% per Bldg	$67,363.75
$15,000,000 Loss Limit	Empire/Clarendon Rated "A", Non-Admitted	20% per Bldg	$77,681.25
$5,000,000 Loss Limit	Golden Bear Insurance Company	15% per Bldg	$33,725.00
$10,000,000 Loss Limit	Golden Bear Insurance Company Mt. Hawley Insurance Company (A+) Non-Admitted	15% per Bldg	$44,604.88
$10,000,000 Loss Limit	Golden Bear Insurance Company Mt. Hawley Insurance Company	10% per Bldg	$48,386.88

After a lengthy discussion, the Board elected, by a majority vote, to purchase earthquake insurance with a $10M loss limit and 10% deductible for $48,386.88.
Jeff Kane, the Association's insurance broker, prepared the following summation of the earthquake insurance to be added into the minutes:

"The Association's Master Insurance covering Earthquake has just been renewed effective August 1, 2006. The Earthquake Insurance market for large community associations has been in a difficult and complex environment in the past 4 months with some insurance carriers that cover catastrophes in California withdrawing from the market and the remaining carriers raising rates and limiting coverage terms and conditions. The reasons for the sudden change in the market are complex. Many carriers that cover catastrophe exposures in California are the same carriers and reinsurers that have provided coverage for hurricane and windstorm damage in other parts of the country. The reinsurance costs for these carriers have risen dramatically in the past year and many carriers simply lack the "capacity" to take on more risk without affecting their surplus and financial stability. In addition, other carriers are having concerns with catastrophe modeling programs that have been developed for potential Earthquake claims in California. The models were so far "off base" with Hurricane Katrina claims that some carriers are just taking a wait and see approach and hoping for better results this hurricane season.

Nevertheless, your Association Management, Board, and Insurance Broker worked together to obtain the best and most reasonable terms and conditions to protect the Association from Earthquake Damage. The end result is that the Association renewed their coverage with a $10,000,000 Loss Limit and a deductible of 10% per building. This means that in the event of a loss, the insurance carrier will not pay more than $10 million after deductibles for any Earthquake loss. Each year, our Insurance Broker, Jeff Kane, researches the market to get the best terms and conditions that the Association can reasonably purchase. In many instances, higher limits and deductibles are simply too expensive. It also stands to reason that with the spread of risk throughout the complex, the likelihood of a total loss may be minimal.

Unit owners have the ability to supplement the Association Earthquake Policy by purchasing "individual" Earthquake insurance from the carrier who covers their individual unit. In many instances, this means buying a policy from the California Earthquake Authority or "CEA" as it is commonly referred to. In an ironic twist to the Earthquake market, the CEA actually reduced rates in July for individual policies. Of course, the CEA is a State of California program and doesn't have to worry about Hurricanes and Catastrophic claims in other parts of the country.

The CEA policy for individual unit owners is limited but can provide additional protection for unit owners. The policy provides only $25,000 for additional structural coverage but does provide up to $50,000 for Earthquake Loss Assessment coverage. The Earthquake Loss Assessment coverage pays for certain earthquake damage assessments made against the unit owner by the association. This would include losses not covered due to the deductible or in the event, there was additional loss that was not covered because the $10 million loss limit was exhausted. The annual premium for a unit owner for this CEA policy is only $182 per year. The policy does have a 15% deductible for each coverage, so the deductible on $50,000 Loss Assessment coverage would be $7,500.00. More information can be researched at www.earthquakeauthority.com or by contacting your individual insurance broker.

To sum it up, there will always be a level of risk that Associations and Unit Owners have to take when purchasing Earthquake Insurance. The question always comes down to how much risk and at what premium cost. You may also contact the Association Insurance Broker, Jeff Kane, at (831) 724-1085 for more information."

NEW BUSINESS

Homeowner Concern Regarding Redshift Internet

A homeowner in the audience voiced his concern about the hi-speed Internet available at the Colony provided by Redshift. His concern was that the Internet was unavailable at times and randomly disconnected several times while he was working online. Tom stated that Redshift was working on the main radio equipment in unit 210 so service should improve over the next few months.

Annual Barbecue

Ellen suggested that the board discuss the cost for guests attending the barbeque this year. In previous years, the cost for a homeowner to bring a guest to the barbeque was $25.00 each, while homeowner's immediate families attended at no charge, regardless of the size of the immediate family. Ellen suggested that to make the process a little fairer, homeowners could be invited at no charge while all others, (family and guests) are charged $10.00 to cover the cost of the additional food. Other points that came out of the discussion were that the Association would get a better headcount under this system and that the menu is much improved offering steak, chicken and brats. It was the general feeling of those in the discussion that homeowners would not mind paying for their children and guests as long as it was reasonable. The Board unanimously agreed to this proposal adding that children under the age of 12 should attend at a reduced rate of $5.00 each.

WATER COMPANY BUSINESS

Addressed in the managers 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 November 18, 2006 at 10:00 A.M. with the newly elected Board of Directors. There will be an Annual Meeting of the Members on October 21, 2006 at 10:00 a.m. The meeting will be followed by the annual barbeque at 12:30 p.m.

EXECUTIVE SESSION

- Request for waiver of a late fee
- Homeowner hearing.

FOR THE BOARD OF DIRECTORS:

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

Treasurer's Report
June and July, 2006

This report covers our fiscal year budget status through July 31, 2006.

Account Balances as of June 30 and July 31, 2006 are:

	June	July
Union Bank Reserve	$456,263.42	$531,917.30
Union Bank Operating	$ 41,913.53	$ 60,287.41
Union Bank Investment Acct	$ 7,826.89	$ 7,831.54
Community Bank Petty Cash	$ 696.06	$ 1,541.34
Union Bank Water Operating	$ 16,038.60	$ 19,082.47
Union Bank Water Reserve	$ 78,116.18	$ 73,165.79

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