

**COMBINED MEETING OF THE BOARDS OF DIRECTORS
MONTEREY DUNES COLONY ASSOCIATION
AND
MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION
August 23, 2003**

PRESENT

Dick Love, President
Mary Jansing-Balگوoyen, Vice-President
Ellen Michaels, Director
John Steinhart, Director
Tom Bugary, Secretary and General Manager

ABSENT

Marty Deggeller, Treasurer

WELCOME

Dick Love called the meeting to order at 10:00 AM, August 23, 2003 at the Monterey Dunes Colony Clubhouse, 195 Monterey Dunes Way, Castroville, CA. 95012

MINUTES

The Board reviewed the minutes of the June 21, 2003 meeting. It was M/S/C to approve the minutes as written.

TREASURER'S REPORT

Mary Balگوoyen presented the Treasurers report for June and July as follows: "As of June 30, 2003, our account balances are: Union Bank reserve account \$873,675.83; Union Bank operating account \$108,327.69; Union Bank investment account \$6,221.51; Union Bank CD \$116,611.57; Community Bank petty cash account \$1,458.04; Union Bank water operating account \$11,009.47; and, Union Bank water reserve account \$163,205.29. Payments to the Capital Replacement Fund of \$16,320.00 per month and \$3,316.80 per month to the Mutual Water Association are current.

As of July 31, 2003, our account balances are: Union Bank reserve account \$966,832.72; Union Bank operating account \$159,007.15; Union Bank investment account \$6,223.09; Union Bank CD \$116,611.57; Community Bank petty cash account \$996.94; Union Bank water operating account \$12,075.27; and, Union Bank water reserve account \$164,608.08. Payments to the Capital Replacement Fund of \$16,320.00 per month and \$3,316.80 per month to the Mutual Water Association are current."

CC&R/POLICY REVISION COMMITTEE REPORT

Tom gave a verbal report on the progress of the committee for Marty Deggeller. Tom stated that the colony has received the draft of both the amended CC&R's and the amended Bylaws from our attorneys, however, before they can be sent to the homeowners for review/discussion, Marty felt that the committee should meet and go over the documents before their release. Tom commented that Marty felt that once the committee went over the documents, made any last minute corrections to the draft, and received an amended copy of the draft back from our attorneys, the Association would send out the drafts to the homeowners.

Dick commented that one of the changes he would like to see in the amended CC&Rs, or in the appropriate governing document, is a change to the current rule prohibiting construction or contract work on Sundays, Dick proposed that the Board consider no construction or noise related work on the units on both Saturdays and Sundays, as well as on holidays. Dick said that most people, residents and guests come to MDCA to enjoy the weekend. Dick proposed to the Board that they consider amending the existing construction rule to read that all construction, or noise related contractor activities be limited to the hours of Monday through Friday 8:00 a.m. – 5:00 p.m.

FINANCE COMMITTEE REPORT

John Gentry reported that the Committee met the previous day with our auditor, Joelyn Carr-Fingerle, to review the annual report to the homeowners. The Committee reviewed the 2002-2003 Audits for both the Water Company and the Association and the Management Letter. The Committee recommends approval of both drafts with minor word changes.

The Committee also discussed an investment policy, which has not been updated since 1996. The proposed investment policy is in the Board packets and the Committee recommends Board approval to this policy update.

The Board M/S/C the approval of the investment policy.

John reported that management, and the Committee feels that it is time to change our relationship with Union Bank. John cited instances where Union Bank of California (UBOC) has been minimally responsive to the Association's needs, and has made significant bank errors with our accounts. The committee listened to two bank presentations yesterday - San Jose National Bank (SJNB) and First Bank of San Francisco. After the presentations and Committee discussion, the Committee recommends that we change banks from UBOC to SJNB at a time to be determined advantageous to management.

The Board M/S/C to change banks to SJNB as recommended by the Finance Committee. Tom was instructed to make the change.

ADHOC RESERVE PROJECT COMMITTEE REPORT

Bill Michaels reported that the Committee last met on July 22, 2003 and is trying to adjust materials and timelines in the Reserve Study to help smooth out the Reserve Special Assessments over the next 10 years. The Committee has been discussing the siding project at

MDCA because that is going to be a high dollar program, currently spanning 4-years starting in 2006. The Committee feels that the siding project can be spread out over 6, maybe as much as 8 years rather than over the 4 years currently scheduled. Bill has tasked Tom to work up the numbers to project this project over 8 years with work being managed using in-house labor rather than by a contractor. In addition, Tom is working on purchasing Cedar Shingles in bulk verses through a local distributor, which can save as much as 20 percent in cedar material costs. The Committee has started by working on adjusting the Shingle Project but needs to look at many of the other projects in our reserve study in order to smooth out our special assessments over the next 10 years.

NOMINATING COMMITTEE

Mary reported that the Committee has five nominations for the five seats on the Board – 1) Mary Jansing-Balگوoyen, Incumbent; 2) Ellen Michaels, Incumbent; 3) Marty Deggeller, Incumbent; 4) John Steinhart, Incumbent; and, 5) Jeff Schwartz, homeowner and past Director. Mary announced that Dick Love would not be running for re-election. It was M/S/C to solicit proxies for the fiscal year 2003-04 Board nominees in a mailing to the homeowners within the next two weeks.

GENERAL MANAGER'S REPORT

MONTEREY DUNES COLONY ASSOCIATION

Deck and Fence Replacements

Tom reported that the Association staff has replaced 4 of the 25 allocated decks for this fiscal year, (July 1, 2003 through June 30, 2004), with 1 more in the process of being completed. This puts us ahead of schedule in deck replacements, which are balanced with other major projects throughout the year. There are currently 51 decks on the priority list for replacement and we have already identified those decks for replacement next year. We will be scheduling replacement decks, as labor is available with homeowners for the remaining replacements.

As a continuing note to the Board, we have been experiencing budget overruns in our deck replacement program since early 2000 due to increased costs for redwood decking, stainless steel hardware, and the added cost of rebuilding most deteriorated wind walls associated with the oceanside deck structures.

Window Replacement Project

We have replaced 47 windows since July 1, 2003 and are now working on replacing windows in the clubhouse while resetting some older, vinyl windows and sliding glass doors at unit 298. In addition, unit 298 is undergoing major repairs to the western exterior wall caused by a long history of water and termite damage. These repairs will cost an additional \$10,000 to \$15,000 beyond a deck replacement and the resetting of the vinyl windows. Unit 298 will also require major repairs to the southern deck windwall.

Milgard has replaced a few defective vinyl windows that are not of block frame construction with fiberglass-upgraded frames, but the frames must show signs of warping and deterioration. Unit 298 has windows of block-frame design and frames are not subject to the Milgard frame warranty.

Insurance Breakdown Figures for 8-03 through 8-04

As briefed by our insurance broker:

	Limits			Limits	
TYPE OF COVERAGE	2002-2003	PREMIUM		2003-2004	PREMIUM
BUILDING LIMITS	\$21,930,308	\$32,337.00		\$22,588,000	\$35,755.00
DEDUCTIBLE	\$25,000			\$25,000	
Liability Limits	\$1,000,000/ \$2,000,000	Included		\$1,000,000/ \$2,000,000	Included
D&O	\$5,000,000	\$2,238.00		\$5,000,000	\$2,638.74
AUTOMOBILE					
LIABILITY	\$1,000,000	\$1,849.00		\$1,000,000	\$3,602.00
FIDELITY/					
DISHONESTY	\$400,000	\$984.00		\$400,000	\$984.00
UMBRELLA LIMITS	\$10,000,000	\$6895.00		\$10,000,000	\$11,591.00
BOILER AND					
MACHINERY	\$1,000,000	\$469.20		\$1,000,000	\$469.20
REPLACEMENT					
COST	INCLUDED	INCLUDED		INCLUDED	INCLUDED
DIC-Earthquake &	\$15,000,000			\$15,000,000	
FLOOD	LOSS LIMIT	\$41,698.47		LOSS LIMIT	\$39,097.50
DIC-DEDUCTIBLE		5%			5%
Totals		\$86,470.67			\$94,137.44

2002-03 Audit and Annual Report

At yesterday's Finance Committee Meeting, our CPA, presented the results of her audit and management evaluation letter to the Finance Committee. The results of the audit were briefed in the Finance Committee report.

MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION

Progress Report, Well #4

- The request for the well permit was submitted to the Monterey County Environmental Health Services on 5/29/03
- Health Services responded to MDCA on 6/9/03 requiring a Coastal Development Permit before issuing a drilling permit.

- MDCA submitted an application for a Coastal Development Permit to the County Planning Division on 6/13/03.
- On 6/16/03, the Environmental Health Services denied a request from MDCA for a letter declaring the replacement well an emergency well for the purposes of obtaining an exemption to the Coastal Development Permit process.
- MDCA elevated the permit process to EHS management on 6/18/03 seeking an exemption for the Coastal Development Permit for emergency health and safety issues.
- EHS management denied the emergency permit and recommended we seek the replacement of our water source while placing the south well on standby status.
- On 8/18/03, the Water Resources Agency overruled the Environmental Health recommendation and required that the South Well be destroyed. MDCA requested this directive in writing before applying for the destruction permits through Environmental Health Services. EHS is currently in litigation with a homeowners association regarding a developer installed well that has failed, and refuses to grant permits under emergency status to wells with secondary constituents that are borderline, but not exceeding current written “upper” discretionary Maximum Contamination Limits in Title 22. The underlying premise for this Coastal Development Permit requirement is the \$5,000. + in fees for the permit. Management is working towards a modified permit with minimal fees for the development of this well.
- MDCA management has declined to destroy the south well without a directive from the Water Resources Agency to do so, and is currently working through the Coastal Development Process to develop Well Number 4.

We are still pending a written directive from the WRA to destroy the south well. In addition, we are looking to hire an independent, local, coastal biologist to evaluate and write an environmental impact statement on the proposed well site. Management has also obtained a destruction permit to take down the colony’s antenna tower in order to clear the colony of a pendency issued by code enforcement in late 1993.

South and North Well Destruction Update

Pending the outcome of drilling well number 4.

End of Report

OLD BUSINESS

None.

NEW BUSINESS

Insurance Update

Jeff Kane, our insurance broker, gave a presentation on our insurance package for 2003-04. Jeff briefed that Worker's Compensation insurance in California has risen dramatically with all businesses being affected by increases as high as 50%, however, because of our excellent safety record and programs in place, MDCA is one of the few companies that did not receive an increase in February 2003.

A homeowner asked Jeff why the Worker's Compensation increases were so large. Jeff answered that recipient benefits have increased significantly since 2002 and within three years benefits will again be double what they are now. Recipient Worker Compensation benefits are ranked 46th in the nation, while employer costs are rising at alarming rates. Jeff called much of the problem political and needed to be addressed at that level.

Most Homeowner Insurance underwriters have pulled out of the market here in California due to a widespread increase in water damage and mold claims. These remaining carriers in the state are not renewing Associations' with any water damage or mold claims, forcing these Associations to pay double, even triple, their premiums using the surplus lines market. Monterey Dunes Colony has not had a water damage claim since January 28, 2000.

The overall premium increase this insurance year for the colony is approximately 8%, which is looked upon as excellent given that the state average is over 4-times as much. Additionally, our 8% increase includes increasing the building limits of insurance coverage by approximately 3%, and adding another vehicle to our policy.

Jeff stated that every homeowner should have an HO6 policy in place to augment the Associations' master policy. There are 4 main components of an HO6 policy: 1) Personal Property – Tables, Chairs, etc. (anything you can take out of the unit); 2) Personal Liability – If somebody gets hurt in your unit; 3) Loss of Use, Loss of Rents, or additional living expense – coverage "D" under HO6 form – this covers living expenses or loss of rents (if you rent) while your unit is being rebuilt/repared; 4) Improvements/Betterments – Covers any additions made to your unit. Jeff recommends that you have at least \$25K in additional insurance coverage because the Association master policy has a \$25K deductible.

Water Meters

Water meters are now installed and maintained on the exteriors of the units. Management takes monthly readings to insure that water conservation efforts are being used at each service connection. Tom issues a water usage chart to the Board each month and has been directed by the Board to send informational letters to excessive users making them aware of their consumption rate and urging them to conserve.

Thank You

Frank Williams noted that Dick is resigning from the Board of Directors effective 10/18/03 and that this is his last Board meeting presiding as President. Frank thanked Dick for all his efforts over the past few years, especially during the past two years he has been the Board's President.

WATER COMPANY BUSINESS

Status on Well #4

Addressed in the Manager's Report

Status on the Destruction of Wells #1 and #2

Addressed in the Manager's Report

Other Water Company Business

None.

ADJOURNMENT

With no other business, the meeting was adjourned at 11:50 A.M. The next Board Meeting will be on November 15, 2003 at 10:00 A.M. The Annual Homeowner's meeting will be on October 18, 2003 followed by a barbecue at 12:30 p.m.

EXECUTIVE SESSION

The Board met in an executive session after the scheduled Board meeting adjourned.
Subject: Owner Discipline

Respectfully Submitted,

Thomas J. Bugary

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