

## Minutes of Causeway on Gull Association, Inc.

### Board of Directors Meeting

January 22, 2005

1. Meeting was called to order at 9:18 am by President Dennis Steele. Directors present were Dennis Steele, Tom Kraus, John Herre, Bill Klingner, Dave Brainerd and Bob Edstrom. Directors absent were Judy Nyssen, John Sweeney, and Gerry Sakariason. Ad Hoc members present were Gloria Williamson. Richard Hawke was also present as legal counsel to the Association. Prospective Ad Hoc candidates Pat O'Hara, Dan Scharf and Terry Miller were also present. Neil Narveson and LeAnne representing Narveson Management were also present. Representatives from the developer, Midwest Resorts (MWR), were not present.
2. Minutes from the Board meeting on November 21, 2004 were not available yet from MWR. Steele noted that Ron Zappa of MWR thought the minutes should be available within the next 2-3 weeks and would be mailed out to each Board and Ad Hoc member and reviewed at the next formal Board meeting.
3. The Board interviewed three new candidates for Ad Hoc members, Pat O'Hara, Dan Scharf and Terry Miller. There was also a request from Mark Korwin-Korzinski to be considered for an Ad Hoc position. After discussion, Steele/Kraus moved to make an informal policy that a former Board member could reapply as an Ad Hoc member after a one year absence. Motion carried. Kraus/Klingner moved to approve Pat O'Hara, Dan Scharf and Terry Miller as Ad Hoc members for the coming year. Motion carried. Steele noted that the Board would drop Tim Vogl as an Ad Hoc member.
4. The Board appointed the following committees for the year:
  - a. Finance: Kraus (chair), Steele, Brainerd, Herre, Scharf and Edstrom.
  - b. House & Grounds: Herre (chair), O'Hara, Klingner, Miller and Brainerd.
  - c. Communications: Nyssen (chair), Sakariason, Sweeney, O'Hara.
  - d. Policy: Klingner (chair), Sweeney, Nyssen, and Sakariason.
5. Committee Reports:
  - a. Finance:
    - i. Kraus reported that considerable discussions with MWR were held over the past 30 days about the amount of maintenance fees MWR feels they were obligated to pay. MWR continues to allege that they are obligated only for 25% of the normal maintenance fee as spelled out in the Association's CCR. Hawke noted that the 25% amount preceded a MN state law requiring full assessment of maintenance fees. He stated the law allows a condominium association to restate its CCRs to require full assessments but did not address preexisting situations. Kraus passed out copies of a 1/12/05 email from Kraus to Finance Committee members describing a meeting with Kristie Lacey-Hause and Ron Zappa of MWR in which the Board offered a compromise in which MWR would pay a \$270.63 annual maintenance fee (roughly equivalent to the cost of maintaining a unit) plus a \$50 turn

fee for units 1-52 and \$241.22 plus \$50 for the 6-plex. The proposal would require MWR to pay an increased maintenance fee over the next several years so that full assessments would begin in the 9th year. Steele noted that MWR was threatening to pull its new 6 plex out of the Association if the Association continues to press for a higher fee than 25%. The Board had extended discussion on the 6-plex and whether MWR could legally decertify the 6-plex without approval from the full ownership. Edstrom/Kraus moved to (a) reiterate the terms of the 1/12/05 email to MWR, (b) start billing 1/12 of units immediately for the new maintenance fees, (c) restrict usage by MWR if any payments were in default and (d) restrict voting rights by MWR and/or Causeway Development, Inc. if any payments were in default. Motion carried.

ii. Kraus reported that the 11/30/04 financial statements were still not available. Edstrom/Herre moved to send a written demand to MWR for prompt delivery of the 11/30/04 statements (including a bank reconciliation report, reconciliation of all due to and due from accounts, and a list of all delinquent accounts receivable) and a 12/15/04 general ledger report by 2/15/05. Motion carried.

iii. Kraus brought up the issue of having an accounting firm to prepare the 12/31/04 financial statements and 2004 tax return. After discussion, Edstrom/Brainerd moved to authorize the Finance Committee to investigate and engage an accounting firm to prepare the year end statements and tax return. Motion carried.

iv. Kraus noted that several owners were getting confused about late notices from MWR as a result of the change in management companies at year end. Neil Markeson reported that they had some issues with the membership list, but they are now live with all accounting. Herre/Brainerd moved to waive the \$25 late fee for fees not paid by 1/31/05 and to request Markeson Management to send out late notices along with an additional one month "late fee" deferral (to 2/28/05). Motion carried.

b. House & Grounds:

i. Herre discussed a recent letter from an owner (Terry Sinisen) containing several suggestions about maintenance issues. Steele noted that he had sent the owner a letter of thanks.

ii. Herre reported that the guard cable going up to the new 6-plex has been installed. Internal street names were also discussed and Deanna was to check on the cost.

iii. Herre stated that the new pool building continues to be an eyesore. Condensation was dripping down the walls due to too high humidity in the building. He stated that some windows have cracked and some rotting was already showing up as well. Markeson was asked to contact Steve Dettbarn to check on warranty issues.

iv. Herre reported that the exercise equipment installed in the pool building by MWR remains only partially in place. They have had numerous breakdowns due to the poor quality. He stated that the Association may need to acquire commercial quality equipment sooner than expected.

v. Herre reported that the COG has received complaints about the lack of lockers and hangers in the pool building.

vi. Herre reported that the pool inspection by the state went okay, but some issues are

pending. The pool need to be relabeled to exact depths, the corner behind the spa needs to be fixed to drain excess water, the hand rails need to be changed, some signs need to be replaced and there were some minor plumbing issues. Markeson was directed to compile a “work list” on the pending issues along with a written follow-up before the pool can be reopened.

vii. Herre stated that except for the indoor pool building, the property looks good. Due to recent frost issues, several units will need vent pipes replaced and windows repaired. Herre reported that they will be looking at replacing heat vent pipes throughout the property to a more rigid pipe as a result of the problems we have had with the flexible version.

c. Communications:

i. Steele reported that MWR continued to claim ownership of the COG website, so he had set up a new website for Association owners. Owners will be able to update contact information on the site.

d. Policy:

i. Klingner reported that due to the recent proxy fight with MWR, the Association’s annual meeting policies will be reviewed. There was some discussion about the date of the annual meeting, but it was decided to leave it in November.

6. Developer Report: None.

7. Management Company Report:

a. Neil Markeson reported that the changeover at the property has gone pretty well. They are still wrestling with Timeshareware due to the manner in which MWR has blocked COGA from critical parts of the software. He reported that they use SSI for all of the other properties they manage. After realizing that the two systems can’t coexist, Markeson decided to move all COGA items to SSI. Markeson stated that this will require MWR to communicate with Markeson Management when they have a reservation similar to the way RCI and II make reservations. Markeson was asked to send a letter to MWR outlining the changeover to SSI along with procedures for MWR to follow for booking reservations. The letter should also state that COGA will not reimburse MWR for any portion of the Timeshareware program anymore due to MWR’s decision to prevent COGA from full access.

b. Markeson reported that they have not yet had a conflict with the new RCI/II calendar. Steele asked Markeson to check confirmations 6 months in advance with any Friday night check-ins so that we don’t have problems later on.

c. Markeson reported that they are in process of converting COGA financials to QuickBooks. He stated that it will be critical to get full and accurate information from MWR in order to set opening G/L balances from the date they assumed control. There was additional discussion about having an outside accountant complete a full audit of the MWR books to determine if any commingling of funds had occurred in the months prior to the change in management companies.

d. Steele asked whether Markeson was in a position to start tracking developer turns so that MWR is invoiced accurately. Markeson said he was not yet prepared to track such usage, but would be once all of the ownership records have been reconciled.

e. Steele requested that an internal control procedure be implemented at the front desk to audit cash. He felt there have been inadequate controls over cash received for recreation programs, merchandise sold, etc.

f. There was discussion about COG staff using staff shirts and name tags so that owners could easily identify staff to report problems, etc. It was also recommended that a “next day” visit to all check-ins be made to see how things were going. It was felt this would be more proactive.

8. Other issues:

a. Steele reported that Exel Energy had decided to get out of the business of maintaining private gas systems (such as at COG) and that COG will need to convert back to Exel pipes. The new pipes were installed in October 2004 by Exel and we need to get hooked up to those pipes as soon as possible.

b. Markeson stated that they have had some reports that MWR continues to collect on delinquent accounts. The collection of delinquent accounts is technically handled by an affiliate of MWR under contract with the Association. There was discussion about asking MWR (or its affiliate) to resign the contract due to problems we have had in getting accurate financial information from them. It was decided that we need to get a copy of the executed collection agreement and have Dick Hawke review our options under the contract.

c. Steele reported that the Association needs to stay out of the rental business since the state requires a “lodging license” and all funds need to go through a separate trust account in order to stay within the law. Steele said there would be no problem if owners rented their weeks privately under an “owner direct” program, but it would be too cumbersome for COGA to have a formal program. Until we get that set up, the management company will need to send all rental deposits to Dick Hawke to keep in a trust account so that COGA stays out of the lodging business.

d. Steele reported that the state health department continues to press COG to upgrade its hot tubs in all units. He stated the state believes COG is a “resort” and must apply for a lodging “license” and abide by their regulations for lodging facilities. Steele said the initial cost estimate to upgrade all hot tubs was about \$28,000. He stated that the state could fine COGA for failing to properly inform the state that the indoor pool was open and failing to obtain a lodging license. Steele felt that the Board’s position should be to continue to insist that (i) COG is a private facility and not a resort as defined by the state and (ii) the state had no authority to regulate the property. Hawke reported that he had a conversation with the state department of health before the pool was opened that the pool was complete and invited them to inspect the pool, but that would in no way recognize their authority to regulate the property. Hawke said he offered to mediate the dispute of whether COG is a lodging facility and expected to hear something within the next 3 weeks.

9. New Business:

a. Brainerd requested that the Board have some say over all new product built by the developer. He stated that the construction problems we have at the new 6-plex suggested that we needed approve all buildings before they are built.

b. Steele reported that a review of the Association by-laws indicated that the developer (declarant ) may have a voting Board seat so long as the developer owned 33% or more of the units. Steele/Kraus moved to remove MWR as a voting member and then invite MWR as a non-voting member of the Board. Motion carried.

Herre/Brainerd moved to adjourn. Motion carried.

Bob Edstrom

Acting Secretary