

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**January 25, 2008**

**PRESENT:** Clayton Loisel, Dennis Noone, Carlton Rooks and Charles Schroeder

The Budget & Finance Committee Meeting was called to order at 2:35 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of November 28, 2007 and to review the November and December 2007 Financial Reports of BCA as well as to discuss other business as per attached Meeting Agenda.

**Minutes of the November 28, 2007 B&F Committee Meeting**

The Minutes of the November 28, 2007 B&F Committee meeting were reviewed and unanimously approved.

**Review of BCA Financials for November and December 2007**

See attached copies of the two reviews for details. Cash balances in BCA's accounts at First National Bank of Arizona remained within the FDIC insured limit (\$100K) but balances in excess of the limit set by BOD (\$50K) were recorded on 38 days during the 2 month period. The BCA balance sheet as of 12/31/2007 prepared by AAM includes a transfer of \$80,000 from OPS to Reserves, even though, the actual transfer was only effected in January. In December Merrill Lynch requested an up-date of the BCA signature list for the Reserve Account. During November AZ State refunded income taxes of \$693.93 of the \$1,208 overpaid on August 31, 2007. No detailed information is available on the resolution of the remaining funds nor on the resolution of the \$4,576 overpayment to the IRS for the tax year covering the BCA FY ending June 30, 2007.

**Bellaser Community Association Banking Relationship Issues**

B&F Committee members agreed that it would be a good idea to invite Belinda Chavira of Community Association Bank (CAB), an affiliate of First National Bank of Arizona, to a meeting with members of the B&F Committee as well as interested BOD members. Marshall Chess had met with her and indicated that she is a good person to contact and would be available to answer a number of questions about our relationship and concerns with CAB. Clayton will be in contact with her to set up a date.

**BCA Reserve Budget and Reserve Fund Investment Options**

The BCA Board approved at its prior day meeting the acquisition of gym equipment that will impact the current year Reserve Expenditures. Dennis will circulate an update of the Reserve Budget to reflect this change and the adjustment of the current fiscal year starting balance. (Clayton handed out a copy of the last page of the latest version of the 5 year Reserve Fund Plan previously distributed and entitled 5 year Investment Analysis).

Currently the BCA Reserve Fund shows a combined total of the Money Market and Institutional funds of \$590,000 plus an expected transfer of \$45,285. In addition, there are \$60,000 invested in CD's. The attached table indicates the rates that are payable on CD's through Merrill Lynch as of 1/25/08 and the current yields on BCA's two money market funds. The Committee seeks to balance the risks and rewards of BCA's Reserve Fund investments to earn an optimal return. A formula of 2/3 of investments covered by FDIC and 1/3 of investments in the Merrill Lynch Institutional Fund would meet this goal. The level of CD rates will become a bit clearer after the Fed decision on 1/30/2008 and the Committee will continue to explore various options of investment including at our current banks, CAB and Merrill to be ready for a proposal to BOD.

**Time Table for 2008/2009 BCA Budget Process**

Marshall has committed to present the *First Draft* of the new Budget on February 11, 2008.

**Other Business**

The resolution of the overpayment of the BCA 2006 Income Taxes to the IRS and AZ State in the amount of \$5,784 is still outstanding. Dennis Noone has asked Charles to summarize this issue preparatory to taken direct action. (Summary attached).

There being no other business the meeting was adjourned at 4:50 PM.

**The next meeting date:** Friday, February 15, 2008 at 2:30 PM at the Bellasera Clubhouse.\*

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 1/25/2007;  
Reviews of BCA Financials for November and December 2007;  
Merrill Lynch Certificate of Deposit Rates; Charles's summary entitled  
*Memorandum on BCA Income Taxes Owed vs. Paid for Fiscal Year  
2006/2007*

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

\* The meeting as set above was intended to discuss the *First Draft of the 2008/2009 Budget* which arrived later than anticipated. A new meeting date was set for Friday, February 29, 2008 at 3:00 PM at the Bellasera Clubhouse.

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for January 25, 2008**

1. Review / approve minutes of our last meeting (November 28, 2007)
2. Review BCA Financial Statements of November and December 2007
3. Discuss BCA banking relationship
4. Discuss BCA Reserve Budget and Reserve Fund Investment Options
5. Set Timetable for 2008/2009 Budget Process
6. New Business
7. Set next meeting date

## Review of BCA Financials for November 2007

**Comments:** Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were within the limits set by FDIC (\$100,000) but exceeded on 26 days the limit set by the BCA Board (\$50,000) in November. The B&F Committee is exploring effective ways to avoid exceeding the limits.

**Action Item:** Merrill Lynch has requested that the BCA account signature authority list be brought up to date.

**Income:** In line with budget.

**Salaries & Benefits:** Under budget.

**Administrative & General:** Overall under budget. *Postage & Copies* over budget due to *Newsletter Expenses* again not shown in separate line item.

**Contract Services:** Overall in line with budget.

**Repairs & Maintenance:** Under budget.

**Utilities:** Under budget except for *Gas*. *Telephone* is 18% over budget for last 5 months.

**Taxes:** A refund of AZ State income taxes in the amount of \$663.53 was received. The overall picture remains unclear, however, as we have no details of how the tax overpayments for the last FY have been and/or will be resolved. The resolution of this issue involves either deduction of estimated payments or refunds or a combination thereof.

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of November 2007 at \$125,600 as per B/S prepared by AAM. This amount will be reduced by \$80,000 to be transferred to Reserves as per BOD decision.

**Replacement Reserve Account at Merrill Lynch:**

As of November 30, 2007 the total balance is \$568,508 yielding 4.50% p.a. interest vs. 4.67% p.a. in October. A greater portion of the \$394,002 in the Money Fund should be placed in the Institutional Fund to benefit from the higher interest rate which in October paid 5.1% p.a.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder

## Review of BCA Financials for December 2007

**Comments:** During the month of December Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were within the limits set by FDIC (\$100,000) but exceeded on 12 days the limit set by the BCA Board (\$50,000). The Calendar Year-end BCA Balance Sheet includes a transfer of \$80,000 from the BCA Operations Account at First National Bank of Arizona to the Reserve Account at Merrill Lynch although the actual transfer was effected only subsequently in January.

**Income:** In line with budget; also reflecting above mentioned transfer to Reserves.

**Salaries & Benefits:** Over budget \$2,358 due to payment of bonuses.

**Administrative & General:** Overall under budget. *Postage & Copies* substantially over budget due to *Newsletter Expenses* **again not recorded in the separate line item.**

**Contract Services:** Overall slightly over budget with overages in *Janitorial, Gate and Pool/Spa Maintenance Contracts* totalling \$1,647.

**Repairs & Maintenance:** Over budget by \$2,117 or 39% due to various repair and supply services.

**Utilities:** Under budget except for *Electricity. Telephone* is 17% over budget for the last 6 months.

**Taxes:** No activity.

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of December 2007 at \$56,276 as per B/S prepared by AAM. This amount includes \$80,000 transferred to Reserves as per BOD decision. (See also my *Comments* above).

**Replacement Reserve Account at Merrill Lynch:**

As of December 31, 2007 the total balance is \$570,687 yielding 4.44% p.a. interest vs. 4.50% p.a. in November. Of this amount only \$60,000 are invested in CD's. The January 2008 statement will show the additional \$80,000. With close to \$600,000 in cash and equivalents the B&F Committee is trying to come up with a proposal to recommend several investment options to the BCA Board. (Not an easy task during this time of financial turmoil).

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder

<b>Certificates of Deposit - Maturities</b>	<b>Rates (%)</b>
1 year	3.2
2 years	3.15
42 months	3.2
4 years	3.6
WCMA Money Fund Class 2	4.02
ML Institutional Fund	4.56

The above rates were quoted by David Stein, VP at Merrill Lynch on January 25, 2008.

The current balances in the Money Fund are \$395,000 and in the Institutional Fund \$195,000.

While current rates as set by the market and the Fed are declining the rates in the Funds lag up to 60 days. In any event the current yield curve is flat (meaning that the margin between short and long term rates is practically even) but is expected to become steep. Even then the rates for the Funds will stay very competitive with the CD rates.

Charles Schroeder

## Memorandum on BCA Income Taxes Owed vs. Paid for FY 2006/2007

On August 31, 2007 AAM paid an amount of \$7,211 for both the BCA Federal and Arizona Income Taxes covering the tax year 2006 (= BCA FY 2006/2007) on recommendation of accounting firm Butler & Jones. This payment resulted in an overpayment of \$5,784 caused mainly due to neglecting to deduct prior estimated taxes paid by BCA amounting to \$4,423. The following tables will provide details:

Fed Estimated Income Tax paid in 06 TxYr	\$3,528.00 (includes \$10 Refund)
AZ Estimated Income Tax paid in 06 TxYr	\$ 895.01 (incl.\$2 Refund +\$5.01 unexpl.)
Total	\$4,423.01

Total Fed Income Tax due for Tx Yr 2006	\$4,691.00
Total AZ Income Tax due for Tx Yr 2006	\$1,159.00
Total	\$5,850.00

Fed Income Tax Balance due on 9/17/2006	\$1,163.00
AZ Income Tax Balance due 10/15/2006	\$ 264.00
Total	\$1,427.00

Fed Income Tax paid on 8/31/2007	\$5,739.00
AZ Income Tax paid on 8/31/2007	\$1,472.00 (including \$70.00 penalty)
Total	\$7,211.00

Fed Income Tax overpaid	\$4,576.00
AZ Income Tax overpaid	\$1,208.00
Total	\$5,784.00

The accounting firm Butler & Jones, as is customary, also recommended the amount of estimated taxes to be paid during the succeeding fiscal year. However, their recommendation is based on their “inflated” figures of the prior year, namely, 4 quarterly payments of \$1,500 each for the Fed Income Tax and 4 quarterly payments of \$400 each for the AZ Income Tax. Instead of the total of \$6,000 for the IRS and \$1,600 for AZ my recommendation would be as follows:

Due Dates	Estimated Fed Income Tx	Estimated AZ Income Tax
10/15/2007	\$1,175.00	\$290.00
12/17/2007	\$1,175.00	\$290.00
3/17/2008	\$1,175.00	\$290.00
6/16/2008	\$1,175.00	\$290.00
Total	\$4,700.00	\$1,160.00

My recommendation is based on 100% of the prior year tax liability in line with the recommendations of Bellasera's accountants of years past. It should also be noted that two of the tax dates for the payment of estimated taxes have already passed without payments by BCA. This is OK since both the IRS and AZ still owe money to BCA. We did receive a refund of \$663.53 from AZ but none from the IRS.

In addition to trying to untangle the BCA tax situation for the tax year 2006 (BCA FY 2006/2007) I made several other observations:

It appears that two accounting firms were involved in preparing our last tax return: Mark Reece and Butler & Jones, at least both sent BCA their invoice for services rendered.

**Mark Reece** send an invoice to BCA dated 7/23/2007 in the amount of \$200.00 for the preparation of the 2006 tax returns of BCA for the IRS, AZ and the AZ Corporation Commission Report. The invoice showed a due date of 8/2/2007 and was paid by AAM on 8/16/2007.

**Butler & Jones** issued an invoice on 8/16/2007 for *Compilation (Accrual Basis) and tax services for year ending 6/30/2007* in the amount of \$1,275.00. This bill was paid by AAM on 9/18/2007 (after being reminded that the bill was past due!).

On August 9, 2007 Butler & Jones wrote a memo to BCA at AAM's address in Phoenix enclosing the Fed tax return and stating that an amount of \$5,739.00 was to be paid on or before 9/17/2007 and that it should be signed at the bottom of page one. (Please note that the copy we received from Marshall was signed by Paul Hansen of Butler & Jones). The memo also stated that an amount of \$1,472.00 was to be paid to AZ Revenue on or before 10/15/2007 and that the enclosed tax return should be signed on the bottom of page two. (The copy we received from Marshall was not signed).

It is interesting to note that Butler & Jones prepared the two returns - we have no evidence that Mark Reece, who had prepared the BCA 2005 returns, was involved with the preparation of the 2006 returns at all - and included on the Fed return a deduction of a \$225.00 tax preparation fee under *Other Deductions* while Mark Reece had billed BCA only for \$200.00. The Butler & Jones invoice did not give any details but I assume the \$225.00 tax preparation bill was added to the "Compilation" bill and is included in the \$1,275.00. When Mark Reece prepared last year's returns he also included as a deductible expense Merrill Lynch's annual bank fee of \$300.00. The 2006 Fed return does not show the ML bank fee which last year amounted to \$600.00 as we opened another account (OPS) for which we were charged an additional \$300.00. This is further evidence that Mark Reece was not involved with the 2006 returns.

Furthermore, while Butler & Jones indicate in their invoice that the "Compilation" refers to the Accrual Method of Accounting the BCA Fed tax return filed was wrongly marked by the preparer to show that BCA is handling its accounting on the Cash Basis.

This ends my summary of the BCA tax and related issues and I hope it will be useful to you.

As action plan I see the following:

1. Contact the principal players: Mark Reece, Paul Hansen of Butler & Jones and the key person at AAM handling taxes.
2. Work out the details of how “to get our money back” from IRS and AZ.
3. Re-do the Payment Schedule for Estimated Taxes prior to the next Due Date of 3/17/2008.
4. Resolve the billing issue by confirming who did what.
5. Tax work to be done to correct the errors should be free of charge.

Charles Schroeder

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**February 29, 2008**

**PRESENT:** Clayton Loisel, Carlton Rooks and Charles Schroeder

**ABSENT:** Dennis Noone

The Budget & Finance Committee Meeting was called to order at 3:10 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of January 25, 2008 and to review the January 2008 Financial Reports of BCA as well as to begin discussing the First Draft of the BCA Budget for FY 2008/2009 and other business as per attached Meeting Agenda.

**Minutes of the January 25, 2008 B&F Committee Meeting**

The Minutes of the January 25, 2008 B&F Committee meeting were reviewed and unanimously approved as amended.

**Review of BCA Financials for January 2008**

See attached copy of the review for details. Cash balances in BCA's accounts at First National Bank of Arizona remained within the FDIC insured limit (\$100K) but balances in excess of the limit set by BOD (\$50K) were recorded on 22 days during the month. The BCA balance sheet as of 1/31/2008 prepared by AAM includes the quarterly transfer of \$45,285 from OPS to Reserves, even though, the actual transfer was only effected on February 7. In December Merrill Lynch requested an up-date of the BCA signature list for the Reserve Account. During the month the IRS seems to have acknowledged the overpayment of \$4,576 in Federal Income Taxes and AAM recorded a *Receivable* of \$3,394.21. This seems to imply that BCA owed an amount of \$1,181.79 in *Estimated Federal Income Taxes* for the first installment due on October 15, 2007. This amount, by the way, is quite a bit lower than the \$1,500 recommended by BCA tax counsel. (Note: Confirm this information and use for next year's Budget). The Committee will follow the unwinding of last year's tax overpayment closely until its final resolution.

**The First Draft of the BCA Budget for FY 2008/2009**

Earlier this week we received the First Draft of the new Budget. The Committee reviewed the draft proposal line by line and Clayton agreed to summarize our discussions in a format that is useful for Marshall Chess and enables him to respond to the Committee's specific line item questions and suggestions.

**Bellasera Community Association Banking Relationship**

Following our meeting on February 8, 2008 with Belinda Chavira, Regional Account Executive of Community Association Bank (CAB), an affiliate of First National Bank of Arizona, we received last week a summary of the services CAB would be able to render to BAC subject to fees and minimum balances. The Committee did not have enough time to discuss remaining concerns of safety of investments, operational controls and cash management expertise among others. The review of the new budget took priority.

There being no other business the meeting was adjourned at 5:10 PM.

**The next meeting date:** Will be set upon receipt of the Second Draft of the 2008/2009 Budget from Marshall Chess, alternatively earlier, to discuss the remaining Agenda items. **The next meeting was set for March 5, 2008 at 2:30 PM see below.**

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 2/29/2008;  
Review of BCA Financials for January 2008;  
BCA Operating Budget FY 7/1/08 – 6/30/09 (Comments Draft #1);  
~~Final Draft (#4) of the BCA Operating Budget FY 7/1/08 – 6/30/09;- delete!~~  
BCA Banking Relationship Memorandum authored by C. Loiselle.  
*Addendum* re: additional B&F Meetings and BOD Study Session.  
Record of Board Study Session held on March 19, 2008.

Two additional meetings of the B&F Committee were set subsequently. Details can be found in the attached *Addendum*.

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for February 29, 2008**

1. Review / approve minutes of our last meeting (January 25, 2008)
2. Review BCA Financial Statements of January 2008
3. Review First Draft Budget for BCA Fiscal Year 2008/2009
4. Discuss BCA banking relationship
5. Set next meeting date

## Review of BCA Financials for January 2008

**Comments:** During the month of January Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000) but exceeded on 22 days the limit set by the BCA Board (\$50,000). The month-end BCA Balance Sheet includes a transfer of \$45,285 from the BCA Operations Account at First National Bank of Arizona to the Reserve Account at Merrill Lynch although the actual transfer was effected only subsequently on February 7. This transfer of the Reserve Portion of the Dues could have been effected as early as January 9, 2008 when sufficient funds were available.

**Income:** In line with budget; also reflecting above mentioned transfer to Reserves.

**Salaries & Benefits:** YTD over budget \$1,486 due to payment of bonuses.

**Administrative & General:** Overall under budget despite several overages in individual line items.

**Contract Services:** Overall under budget with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* totalling a combined \$4,300 YTD.

**Repairs & Maintenance:** Over budget due to overages in *Storm Damage, Landscaping* and *Lightbulbs* totalling \$2,325.

**Utilities:** Overall under budget with overages in all categories covered by savings in *Water/Sewer* expenses.

**Income Taxes:** The two line items (Federal + State income taxes) show an entirely distorted picture of BCA's current tax situation for the following reasons:

- The January Budget Comparison Statement does not show that any estimated taxes were paid on the past four due dates of this fiscal year.
- The overpayment of \$5,784 last August (including a \$70 late payment penalty) of both Federal and State income taxes will be and has been only partially refunded. \$3,394.21 to be received from the IRS and \$663.53 has been received from AZ State.
- Since the overpayment was funded from prior fiscal year funds they should technically be returned to the prior year accounts.
- With the help of accounting firm Butler & Jones AAM may wish to determine the correct amounts of estimated income taxes paid and record them accordingly to comply with a true Budget Comparison Statement.

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of January 2008 at \$26,105 as per B/S prepared by AAM. This amount includes \$45,285 transferred to Reserves. (See also my *Comments* above).

**Replacement Reserve Account at Merrill Lynch:**

As of January 31, 2008 the total balance is \$674,096 yielding 4.28% p.a. interest vs. 4.44% p.a. in December. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder

**Bellasera Community Association  
Operating Budget  
FY 7/1/08 – 6/30/09**

**Comments – Draft 1  
02/29/08**

The Budget & Finance Committee reviewed the BCA Operating Budget (Draft 1) on February 29, 2008. We offer the following comments on a line item basis:

<b>Income</b>	<b>Comment</b>
4109	We assume that \$1200 reflects replacement of lost gate transmitters <u>only</u> and that replacement of units with failed (dead) batteries is the responsibility of the community association.
4165	Interest income should include interest earned in the Reserve Fund account as well as the Operating account. Although seemingly illogical, Reserve Fund interest must be reported for tax purposes and income taxes are paid from the Operating account. See lines 5161 + 5162.
<b>Administrative Expenses</b>	
5101	Are we to assume that nobody will receive any pay raises or Christmas bonuses this year? This line item should be consistent with our anticipated business practices.
5113	Social expense should be maintained at \$3,600 which has been requested by the Activities Committee and is consistent with the Board's policy of resident participation in community events.
5135	Last year, Postage and Copies was unusually high because of the preparation and distribution of new By-Laws and CC&R's to all BCA members. Even with + 3c postage, \$2M increase too high!
5136	This item should reflect Merrill Lynch's charge of \$300 per account times 2 = \$600 which typically are levied in January. These are expense items to be deducted from Interest Income for purposes of calculating income tax.
5145	This line item should be reclassified (and possibly renumbered) to include \$1,000 for printing and distribution of a community directory as requested by the Communications Committee.
5159	Similar to line item 5135, legal expenses were high last year because of work required to prepare new By-Laws and CC&R's. Are we anticipating any unusual legal expenses this year? Are any of our legal charges covered by a retainer? Should we have one?
5161 5162	Does the CPA estimate reflect the fact that interest income will be down this year because of current conditions in financial markets plus anticipated higher Reserve Expenses?
5163	Please verify property tax base with Scottsdale. The \$3 was a late payment penalty.
5165	Please explain fees and source of dollar amounts
5168	If this line item is truly blank, please remove it. Otherwise, I suspect that Office Equipment Repair should be handled as a contract item.

<b>Utilities</b>	
5205 5210 5215	As a group, Utilities represent a significant operating expense item. We are reluctant to see these items remain unchanged or reduced in the current economic environment. Does anyone at AAM follow utility rate cases currently before the Arizona Regulatory Commission or has anyone contacted the three major utility companies to determine if we are facing any rate increases during the next fiscal year?
<b>Repairs &amp; Maintenance</b>	
5318	Are flags considered storm damage or part of gate house expenses?
5330	This seems low. Have any costs been shifted to a contract item?
5342	Remove line item – what street lights are we repairing?
5343	Perhaps merge this item with item 5318?
5344	Should this become part of item 5355?
5345	This seems low. Should this be a Reserve Fund item?
5350	Is this a separate item from item 5370 (Pool/Spa) repairs?
5353	Should this be part of item 5318 and 5343?
5355	Why is this not a contract service and part of item 5525?
5356	Why is this not a contract service and part of item 5525? Or, at least, roll together with items 5344 and 5355?
5358	This is a significant landscaping item. Is this the first time that we have pruned the trees? How did we account for it in the past?
5360	This seems low. \$3,000 does not buy much granite. What are we replacing?
5361	This seems low. \$1,000 does not buy much painting. Should this be a Reserve item?
5368	Remove line item and / or combine into clubhouse repairs
5370	Why is this item not part of a contract service?
5376	Small amount – why segregate? Is this a Reserve item?
5381	Same comment – why segregate? Is this a Reserve item?
5396	This is a huge increase. How many gate transmitters do we anticipate being replaced? The new replacement policy should not impact this line item. It impacts item 4109.
<b>Contract Services</b>	
5513	Increase by 3% as of renewal date. Also, include anticipated bonuses in this line item.
5514	Why would we NOT anticipate an increase?
5515	Why would we NOT anticipate an increase?
5524	I was under the impression that the new recreational equipment included certain warranty and maintenance conditions. This should be reflected in this line item.
5525	Why would we NOT anticipate an increase? Considering items above (Repairs & Maintenance) perhaps we should be renegotiating this contract to be more comprehensive.
5530	Considering that other contracts are unchanged and that we are probably going to reduce the scope of AAM contract (i.e. financial management), perhaps there should be a reduction.
5535	Remove line item

**Bellaser Community Association**  
**Budget & Finance Committee**  
**Banking Review and Recommendations**  
**March 19, 2008**

For several months, the Budget & Finance Committee has been very concerned about the financial strength and viability of First National Bank of Arizona (FNBA) and its affiliate, Community Association Banc (CAB). As you are aware, Bellasera's operating account is held at FNBA / CAB. (CAB is not really a bank but rather a collection and processing facility which channels our quarterly payments into our FNBA account.) Our concerns focus on the following:

- 1) FNBA is a private corporation and is, therefore, not required to release any financial information to depositors;
- 2) in the current financial market environment there is a real risk of bank failure because of sub-prime mortgage loans; and
- 3) our operating account balances routinely exceed the \$100,000 maximum FDIC insurance limit in our FNBA operating account.

In on-going discussions with Dennis Noone, BCA Treasurer, we identified the need to improve the cash management relating to BCA operating funds (that is, increase interest yield), and reduce financial exposure to uninsured balances at FNBA. To this end, we have investigated several alternative banking arrangements, the latest being the ***Wealth Management Services*** offered by CAB. These services would enable Bellasera to diversify its investment options and reduce or eliminate any financial risk associated with operating funds in excess of \$100,000. CAB has reviewed our situation and has offered us its services which would require us to keep a minimum of \$200,000 (normally CAB requires \$350,000+) invested in either the Goldman Sachs Financial Square Treasury Obligation Fund, or in one of the First National Bank or Heritage Bank sponsored money market fund(s). Both of these options are very low yielding investment vehicles in the range of 0.84% to 0.89%. Currently, our excess operating funds are being held at Merrill Lynch in one of its money market funds, which yields about 4.25%. Some very simple math tells us that CAB's ***Wealth Management Services*** would cost Bellasera about \$6,800 per year. Dare I state the obvious that the wealth all seems to be flowing to CAB and not to Bellasera!

Perhaps less obvious is the question of why we would want to entrust any more money to FNBA and/or CAB given current market circumstances. Yes, the money can be spread around to affiliate banks and, in theory, increase our FDIC insurance limit and reduce financial risk. However, it is our judgment that, if one of these banks fails, it will probably cause a cascading effect and they will all go down. In this scenario, our funds would be insured but we would have to file a claim in order to recover our funds from the FDIC, which could take some considerable length of time. How do we pay the bills in the meantime?

After much consideration, the Budget & Finance Committee feels that the simplest solution to this challenge would be to implement a program whereby someone manually monitors the balances in Bellasera's operating account at FNBA. Once the balances reach a certain amount, for example \$80,000, we manually instruct AAM to transfer

funds to the Merrill Lynch operating account. Clearly, AAM is unable or unwilling to monitor Bellasera's operating account at FNBA – after months of prodding, they simply cannot manage this simple task. We would suggest that someone on the Board or the Budget & Finance Committee be permitted on-line, **view only** access to the FNBA operating account balances. Then as required a Board-authorized individual would give the transfer instruction to AAM on a **priority basis**. As AAM requires funds to pay various Bellasera operating expenses, appropriate amounts can be transferred back to FNBA to meet these expenses, provided however, that the \$100,000 FDIC limit is not exceeded. In addition, any unexpected large amounts could be paid directly from the Merrill Lynch operating account, which does have check writing privileges. We can structure this process at the Board's discretion to ensure flexibility and proper oversight.

It is probable that this process will be activated on a quarterly basis around the time when our community dues are collected from residents. It might require several transfers each quarter. This would also make it possible for us to transfer money into our Reserve Fund in a more timely fashion. Historically, AAM has typically transferred money to our Reserve Fund when they "get around to it". This has resulted in our regularly losing interest income on Reserve Funds. We lose, FNBA gains!

Our basic conclusions are as follows:

- 1) we are taking inappropriate financial risk by leaving excess operating funds on deposit with FNBA,
- 2) increasing our financial exposure to FNBA / CAB in any fashion is not advisable,
- 3) establishing a manual monitoring and transfer protocol is the simplest and most cost-effective solution to our current financial challenge,
- 4) the proposed manual transfer protocol would enable Bellasera to take advantage of the existing, low-cost lockbox collection system offered by CAB, while maximizing our interest yield in the Merrill Lynch MMA and substantially limiting our credit risk exposure,
- 5) AAM has no cash management skills or interest in solving our problem, and
- 6) there is no "free lunch" in this business.

We would be pleased to discuss this issue with the Board in further detail at your convenience; however, we again emphasize the necessity of acting quickly on this matter. Time is of the essence!

On behalf of the Budget and Finance Committee,  
Clayton Loiselle, Chairperson

## Addendum

The Budget & Finance Committee met again on **March 5, 2008** and finished the review of the remaining line items of Draft Budget prepared by AAM as well as the Draft Reserve Budget. The Committee also discussed the proposal by Community Association Bank. Clayton Loiselle, Chairman of the Committee, said he would prepare a memorandum for the Board to act upon.

Charles Schroeder suggested that for those line items of the proposed Budget that required technical expertise members of the Building & Grounds Committee be consulted. The Committee agreed and Clayton Loiselle stated that he would call another meeting on March 18, 2008 that would include Paul Anetsburger, Trish Benninger and Marshall Chess.

The meeting was called to order at 2:40 PM and adjourned at 5:10 PM.

Present: Messrs.: Clayton, Rooks and Schroeder.

**On March 18, 2008** the B&F Committee met again at 2:30 PM. Present were Trish Benninger, Paul Anetsburger, Marshall Chess, Clayton Loiselle, Carlton Rooks and Charles Schroeder.

Several *Landscape Line Items* were discussed and line items #5318 and 5353 were increased by a total of \$2,500 while *Tree Pruning* was reduced from \$12,000 to \$5,000. Also, the line item *Patio/Furniture/Umbrellas* was increased from \$480 to \$1,200. Marshall Chess had entered all the changes that were decided into his laptop and by the end of the session he presented the participants with the final Draft of the new Budget (#4) which is enclosed.

Afterwards, the members of the Budget & Finance Committee present discussed the memorandum of the BCA Banking Relationships prepared by Clayton Loiselle and its final version was approved by the Committee. (Copy enclosed).

The meeting was adjourned at 4:15 PM.

In addition, Trish Benninger-Dixon and Paul Anetsburger of the Building and Grounds Committee as well as Clayton Loiselle and Charles Schroeder of the Budget & Finance Committee attended the Board Study Session scheduled on **March 19, 2008** to present the BAC Draft 2008/2009 Budget and the BCA Banking Relationship Memorandum and Recommendation to the Board represented by Bob Shriver. (Copy of the record of the meeting enclosed).

## Minutes of BCA Board Study Session, March 19, 2008

Board member present: Bob Shriver

Others in attendance: Paul Anetsberger and Trish Dixon from the Building and Grounds Committee. Clayton Loiselle and Charles Schroeder from Budget and Finance Committee.

Discussions on the following topics began at 7pm:

Draft Budget for FY 08/09. Clayton Loiselle and Charles Schroeder provided a final DRAFT budget which has been prepared with coordination from AAM. This draft budget has been provided to all board members by email and will be presented for consideration at the next regular Board of Directors meeting. Trish Dixon and Paul Anetsberger commented on the Building and Grounds input to the budget and their need to be kept advised on expenditures for B&G related expenses on a monthly or quarterly basis. Clayton and Charles are taking this for action.

Banking Review and Recommendations: This subject is covered in detail in a separate email to all board members. Both Charles and Clayton provided more detail and the rationale for their concern. The B&F Committee plans to present a proposed resolution and /or a proposed motion at the next regular board meeting regarding a proposed solution to the perceived banking problem.

The "Study Session" concluded at 8:15pm.

Submitted. Bob Shriver

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**April 25, 2008**

**PRESENT:** Clayton Loiselle, Carlton Rooks and Charles Schroeder

**ABSENT:** Dennis Noone

The Budget & Finance Committee Meeting was called to order at 2:45 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of February 29, 2008 with Addenda covering the 3/5/08 and 3/18/08 B&F Committee Meetings and the 3/19/08 BOD Study Session. As well as to review the February and March 2008 Financial Reports of BCA and to discuss the Status of the BCA Banking Relationship Proposal.

**Minutes of the February 29, 2008 B&F Committee Meeting**

The Minutes of the February 29, 2008 B&F Committee meeting were reviewed and unanimously approved as amended.

**Review of BCA Financials for February and March 2008**

See attached copies of the reviews for details. Cash balances in BCA's accounts at First National Bank of Arizona remained within the FDIC insured limit (\$100K) but balances in excess of the limit set by BOD (\$50K) were recorded on 6 days each of the two months. During February the purchase of a wireless microphone system for \$271 was recorded under line item #5112 *Meeting & Community* expenses causing a 1253% overage. The expense should be charged to *Office Expense*. Both reviews commented extensively on the unresolved issues of BCA's income taxes and the Committee decided to ask Charles Schroeder to address an action plan and offer of guidance towards resolution to the Community Manager – or if not available – to Earlene Morgan. The Committee will follow the unwinding of last year's tax overpayment closely until its final resolution including to make sure that the apparently past due (on 3/17/08) payment of the last quarterly installment of BCA's Estimated Federal Taxes is paid. (Copy of Charles Schroeder's Memorandum on the BCA Income Taxes enclosed).

**The BCA Budget for FY 2008/2009**

The BCA Operating Budget for FY 2008/2009 was approved by the Board on April 24, 2008 after additional reductions in expenditures. Overall dues will increase by 5%. While the contribution to Reserves has been set, the Reserve Budget for the new fiscal year has not yet been approved by BOD. The members of the Budget & Finance Committee request that they receive copies of the approved new budget and - once approved by the Board – the new Reserve Plan for FY 2008/2009.

**Bellasera Community Association Banking Relationship**

The Committee had previously submitted a Resolution to the Board of Directors to limit BCA's credit exposure to the First National Bank of Arizona. The Resolution – as amended – was adopted by the Board on April 24, 2008. (A copy of the final version of the BCA Cash Management Policy is enclosed).

**New Business**

Several new tasks are contemplated as the Committee moves forward:

- Review of BCA Contracts jointly with the Building & Grounds Committee;
- Review of Warranties/Guarantees jointly with B&G Committee;
- Assist and encourage AAM to come up with a Narrative of Budget Line Items;
- Review of Reserve Components/Price changes using Win Reserve;
- Review the various BCA accounts at FNBA to eliminate those not needed
- Develop graph to demonstrate Budget Performance.

There being no other business the meeting was adjourned at 4:10 PM.

**The next meeting date:** Friday, May 23, 2008 at 2:30 PM at Clubhouse

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 4/25/2008;  
Review of BCA Financials for February 2008;  
Review of BCA Financials for March 2008;  
Transmittal E-Mail RE: BCA Income Taxes;  
Memo RE: Bellasera Federal Income Tax Account #5161;  
Memo RE: Bellasera AZ State Income Tax Account #5162;  
Final version of BCA Cash-Management Policy.

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiseau  
Chairman, B&F Committee

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for April 25, 2008**

1. Review / approve minutes of our last meeting (February 29, 2008) with Addenda covering 3/5/08 and 3/18/08 B&F meetings and 3/19/08 BOD Study Session
2. Review BCA Financial Statements for February and March 2008
3. Discuss Status of BCA Banking Relationship Proposal
4. New Business
5. Set next meeting date

## Review of BCA Financials for February 2008

**Comments:** With a high of \$72,160 and a low of \$2,416 during the month of February Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000) but exceeded on 6 days the limit set by the BCA Board (\$50,000).

**Income:** In line with budget.

**Salaries & Benefits:** YTD over budget \$865 due to payment of bonuses.

**Administrative & General:** Overall under budget despite several overages in individual line items including an overage of \$250.61 or 1253% in line item #5112 *Meeting & Community* for the purchase of a wireless microphone. Recording this expense under *Office Expense* may be a better way. (There is room to do it too!)

**Contract Services:** Overall over budget with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* totaling a combined \$3,868 YTD.

**Repairs & Maintenance:** Overall under budget.

**Utilities:** *Electricity, Gas* and Telephone are over budget, however, overall YTD under budget.

**Income Taxes:** The two line items (Federal + State income taxes) do not show as yet a clear picture of BCA's current tax situation for the following reasons:

- On February 19, 2008 AAM paid two checks for \$400 each to AZ Department of Revenue based on a memo dated August 9, 2007 by the BCA Tax Accountant and specifying that the aforementioned amounts were to be paid one on October 15, 2007 and the other on December 17, 2007. The memo, by the way, is the same that caused the overpayment of BCA Federal and State income taxes.
- The overpayment of \$5,784 last August (including a \$70 late payment penalty) of both Federal and State income taxes will be and has been only partially refunded. \$3,394.21 to be received from the IRS and \$663.53 has been received from AZ State.
- **It is recommended that the BCA Board contact the BCA CPA's Butler & Jones to determine the exact status of our Association's Tax situation to avoid the potential payment of late and penalty fees.**

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of February 2008 at \$38,132 as per B/S prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of February 29, 2008 the total balance is \$675,606 yielding 3.68% p.a. interest vs. 4.28% p.a. in January. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder

## Review of BCA Financials for March 2008

**Comments:** With a high of \$64,051 and a low of \$4,624 during the month of March Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000) but exceeded on 6 days the limit set by the BCA Board (\$50,000). - In follow-up of my recommendation to the Board in my February Review to take action to resolve the confusion created by the AAM Accounting Department in maintaining (or most likely not maintaining) BCA's Income Tax Accounts (Account #'s 5161 and 5162) I now urge the Board to take immediate action to prevent possible penalties for late payment of estimated taxes by seeking clarification from AAM and if necessary from BCA Tax Counsel. For further information see below.

**Income:** Slightly above budget.

**Salaries & Wages:** YTD over budget \$638 due to payment of bonuses.

**Administrative & General:** Overall under budget despite overages in 7 individual line items.

**Contract Services:** Overall under budget with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* totaling a combined \$1,456 YTD.

**Repairs & Maintenance:** Overall under budget.

**Utilities:** *Electricity*, *Gas* and Telephone are over budget, however, overall YTD under budget.

**Income Taxes:** The two line items (Federal + State income taxes) continue not to present a clear picture of BCA's current tax situation for the following reasons:

- On February 19, 2008 AAM paid two checks (at least one of which was late) for \$400 each to AZ Department of Revenue based on a memo dated August 9, 2007 by the BCA Tax Accountant and specifying that the aforementioned amounts were to be paid one on October 15, 2007 and the other on December 17, 2007. The memo, by the way, is the same that caused the overpayment of BCA Federal and State income taxes. On March 5, 2008 AAM sent another \$400 check to AZ State for estimated Income Taxes. This latter \$400 payment (or a portion of it) appears to be in excess of what BCA owes. According to BCA Tax Counsel BCA owed \$400 each on the following days: 10/15/07, 12/17/07, 3/17/08 and 6/16/08. But because of the Overpayment of \$1,208 last August and a State Tax Refund of \$663.53 in November BCA's Tax Liability on 10/15/07 is assumed to have already been taken care of by the State. The line item *State Income Tax* (A/C # 5162) needs to be adjusted to correctly reflect the current status of BCA's State Income Taxes paid.
- As to BCA's Federal Income Tax Liability the line item *Federal Income Tax* (A/C # 5161) does not show any activity during March and no tax payments during the entire current fiscal year. However, BCA received a Federal Tax Refund of \$84.45 on March 10. For some strange reason AAM recorded this receipt under *Interest Income*. On the other hand AAM eliminated an IRS receivable created in January in the amount of \$3,394.21 which indicates that the original Tax Overpayment Issue has been settled. Now the actual tax payments of BCA to the State and the IRS have to be properly recorded. It is a combination of the estimated income tax payment schedule developed by BCA's CPA and the assessments both by the State and the IRS for the payment dates when BCA did not pay any taxes due because of the overpayments last August.

- **This is why I recommend that the BCA Board take immediate action to work with AAM and, if necessary, with BCA's CPA's, Butler & Jones, to determine the exact status of our Association's Tax situation to avoid the potential payment of late and penalty fees and to eliminate the existing confusion of the two important income tax line items.**

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of March 2008 at \$55,079 as per B/S prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of March 31, 2008 the total balance is \$676,838 yielding 3.17% p.a. interest vs. 3.68% p.a. in February. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder

## TRANSMITTAL E-MAIL RE: BCA INCOME TAXES

Earlene Morgan  
Administrative Assistant to Bellasera Community Manager

Hi, Earlene,

In the absence of the Community Manager I am addressing this matter to you on behalf of the Budget & Finance Committee which discussed it during last week's meeting and hope you can assist us in the resolution of the Bellasera tax issues.

I have included background information for both the Federal and AZ State income taxes in two separate memoranda intended to assist AAM in the resolution. Additional information needed for the final resolution are the documents received by AAM in connection with the settlement of the Overpayment of Federal and State Income Taxes and in connection with the respective tax refunds.(I do not have access to these documents).

### **Recommended Action:**

1. AAM to record the quarterly estimated tax payments appropriately in the **General Ledger Accounts** and the **Bellasera Budget Comparative Statements.**
2. AAM to figure the correct amount due for Federal Estimated Income Taxes due March 17, 2008 and pay that amount **as soon as possible**. In the absence of any information from the IRS the amount to pay would be \$1,500.
3. The amounts of Overpayment of Federal and State Taxes should be re-credited to the prior fiscal year as the refunds were received during the current fiscal year and only the amount of taxes owed for the prior year should be chargeable to the prior fiscal year.

Thank you for your assistance in this matter.

Charles Schroeder.

## Memorandum

**Date: April 27, 2008**

**Subject: 1) Bellasera General Ledger Federal Income Tax Account # 5161  
2) Bellasera Budget Comparative Statement – Line Item # 5161**

**Purpose: To Provide Background Information that will Assist AAM to Update/  
Correct Information Contained in the Captioned Accounts and, if  
Necessary, Make Estimated Income Tax Payments Due**

The table below summarizes Bellasera’s Federal Tax Liability for the Fiscal Year 2006/2007. The Tax Liability was over-reported in Bellasera’s Tax Return since Mr. Hansen, CPA, did not factor in that Bellasera had already paid \$3,518 in estimated income taxes. As a result, an amount of \$5,739.00 was paid to the IRS on August 31, 2008 including an overpayment of \$3,518. It should be noted that this amount was charged against the prior year’s *Owners’ Operating Equity*.

On January 31, 2008 AAM established a *Receivable* of \$3,394.21 to be received from the IRS as Refund of the previous Overpayment subject to the deduction of estimated payments owed by Bellasera on 10/15/2007 and 12/17/2007. (See Payment Schedule of Estimated Taxes as recommended by Bellasera’s CPA in table below). AAM did not make any estimated payments through March 17, 2008.

On March 10, 2008 AAM recorded a Federal Tax Refund of \$84.45 (erroneously recorded in the *Interest Income Account*) which means that Bellasera failed to pay the estimated Federal income taxes due on March 17, 2008.

For the entire current fiscal year the Bellasera Budget Comparative Statement does not reflect any payments of estimated Federal income tax payments at all. Neither does the General Ledger Account # 5161.

**Summary of Bellasera HOA 2006 Federal Income Tax Liability (covering BCA Fiscal Year 2006/07)**

\$5,749.00	Total Tax Due
-\$10.00	Carryover of Refund from prior Year
-\$3,518.00	Total Estimated Taxes Paid
\$2,221.00	Tax Due by September 17, 2007
\$5,739.00	Tax Paid to IRS on 8/31/2007
\$3,518.00	Overpayment of Federal Income Tax

**Payment Schedule of Estimated Income Tax as recommended by Bellasera CPA and Current Status**

Date	Amount	Current Status
10/15/07	\$1,500.00	Paid from Overpayment (?)
12/17/07	\$1,500.00	Paid from Overpayment (?)
3/17/08	\$1,500.00	Not Paid
6/16/08	\$1,500.00	Not Paid

The amount of estimated Federal Income Taxes assessed by the IRS and deducted, if any, from the Overpayment of Taxes, as well as any other amounts charged are not known to the undersigned, but should be available from Tax Documents received by AAM in connection with the Tax Overpayment Settlement and Tax Refund.

The aforementioned Tax Documents should also allow figuring the correct amount of Federal Estimated Income Taxes due on March 17, 2008.

Also, the amount of Overpayment of the Federal Income Tax charged to the prior year of \$3,518 should be re-credited to the prior year as Bellasera received the tax refund this current year. Only the amount of taxes owed for the prior year should be charged to the prior year.

Charles Schroeder

April 27, 2008

## Memorandum

**Date: April 27, 2008**

**Subject: 1) Bellasera General Ledger AZ State Income Tax Account # 5162  
3) Bellasera Budget Comparative Statement – Line Item # 5162**

**Purpose: To Provide Background Information that will Assist AAM to Update/  
Correct Information Contained in the Captioned Accounts**

The table below summarizes Bellasera’s AZ State Tax Liability for the Fiscal Year 2006/2007. The Tax Liability was over-reported in Bellasera’s Tax Return since Mr. Hansen, CPA, did not factor in that Bellasera had already paid (\$893.01\*) in estimated income taxes. As a result, an amount of \$1,472.00 was paid to AZ State on August 31, 2008 including an overpayment of \$963. It should be noted that this amount was charged in full against the prior year’s *Owners’ Operating Equity*.

On November 30, 2007 AAM received an amount of \$663.53 from AZ State as Refund of the previous Overpayment, assumingly, after deduction of estimated taxes owed by Bellasera on 10/15/2007. (See Payment Schedule of Estimated Taxes as recommended by Bellasera’s CPA in table below). AAM paid the estimated installment of \$400 due on 12/17/07 **very late** on February 19, 2008 and the next one due on March 17,2008 **early** on February 19,2008. The final installment of \$400 due on June 16, 2008 was paid **very early** on March 5, 2008.

Both the *General Ledger* and the *Bellasera Comparative Budget Statement* reflect only the AZ State Income Tax Refund of \$663.53 and the payment of three installments of \$400 each.

**Summary of Bellasera HOA 2006 AZ State Income Tax Liability (covering BCA Fiscal Year 2006/07)**

\$1,404.00	Total Tax Due
-\$2.00	Carryover of Refund from prior Year
-\$893.01	Total Estimated Taxes Paid
\$508.99	Tax Due by October 15, 2007
\$1,472.00	Tax Paid to AZ State on 8/31/2007
\$963.01	Overpayment of AZ State Income Tax

**Payment Schedule of Estimated Income Tax as recommended by Bellasera CPA and Current Status**

Date	Amount	Current Status
10/15/07	\$400.00	Paid from Overpayment (?)
12/17/07	\$400.00	Paid late on 2/19/08
3/17/08	\$400.00	Paid early on 2/19/08
6/16/08	\$400.00	Paid early on 3/5/08

\*) This amount should be equivalent to \$888.00 following the recommendation of CPA, Mr. Reese, to pay 4 estimated tax installments of \$222.00 each. However, on 2/9/2007 AAM paid \$227.01 or \$5.01 more than was due on 3/15/2007. No reason given why.

The amount of estimated AZ State Income Taxes assessed by AZ State and deducted, if any, from the Overpayment of Taxes, as well as any other amounts charged are not known to the undersigned, but should be available from Tax Documents received by AAM in connection with the Tax Overpayment Settlement and Tax Refund.

The above mentioned documents should also allow figuring the correct amount of AZ State estimated income tax due on October 15, 2007 that, assumingly, has been deducted from the tax Overpayment.

Also, the amount of Overpayment of the AZ State Income Tax charged to the prior year of \$963 should be re-credited to the prior year as Bellasera received the tax refund this current year. Only the amount of taxes actually owed for the prior year should be charged to the prior year.

Charles Schroeder

April 27, 2008

**Bellasera Community Association  
Cash Management Policy  
April 24, 2008**

In the matter of the banking relationship between the Bellasera Community Association (“BCA”), and First National Bank of Arizona (“FNBA”), and Community Association Banc (“CAB”):

WHEREAS: The Bellasera Community Association (“BCA”), bank account at FNBA (operating account) routinely exceeds \$100,000, the maximum amount insured by the FDIC, and

WHEREAS: The Board has determined that it is prudent to monitor the account regularly and maintain the balance in the account below the maximum amount insured by the FDIC.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The Board of Directors authorized the President or his designee, to have “view only” access to the FNBA accounts, and
2. If the total balances in all the FNBA accounts exceed \$70,000 or such lesser amount the President deems prudent, the President or his designee, who shall be a Board member, shall instruct AAM to transfer an appropriate amount of funds from the FNBA account to the operating account at Merrill Lynch, and
3. At the beginning of each calendar quarter, upon the advice of the Treasurer, the President or his designee is authorized to instruct AAM to transfer an amount as specified in the current, approved budget to the Reserve Fund at Merrill Lynch.

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**June 20, 2008**

**PRESENT:** Clayton Loiselle, Dennis Noone, Carlton Rooks and Charles Schroeder

The Budget & Finance Committee Meeting was called to order at 2:35 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of April 25, 2008. As well as to review the April & May 2008 Financial Reports of BCA and to discuss the status of BCA's estimated income taxes for the current fiscal year.

**Minutes of the April 25, 2008 B&F Committee Meeting**

The Minutes of the April 25, 2008 B&F Committee meeting were reviewed and unanimously approved.

**Review of BCA Financials for April & May 2008**

See attached copies of the reviews for details. Cash balances in BCA's accounts at First National Bank of Arizona remained within the FDIC insured limit (\$100K) during the two months. The *Contract Services* category has been consistently over budget (YTD \$6,562) and is due to *Janitorial* and *Pool/Spa* expenditures.

**BCA Estimated Income Taxes**

With the final installment of \$400 paid on 6/11/2008 the *AZ State Income Tax* line item is now in order.

Estimated Income Taxes of \$1,500 due to the IRS on March 17, 2008 were paid on May 5, 2008. AAM has promised that resulting interest and penalty charges will be reimbursed to Bellasera. At this time, we are awaiting confirmation from Dale Woods, AAM, that the first two installments of \$1,500 each on 10/15/2007 and 12/17/2007 have been paid and the line item corrected accordingly.

**BCA Reserve Fund Investments**

The Committee discussed the current cash balances at Merrill Lynch (ML) and proposed that we obtain current CD rates as they are now beginning to exceed what ML is paying on BCA's cash balances. B&F has recommended that \$400,000 to \$450,000 be invested in \$90,000 tranches in separate banks to be covered by FDIC insurance. (In the meantime, Clayton Loiselle has sent a formal recommendation to this effect to the BCA Board).

**OPS Account at First National Bank of Arizona**

Balances at FNBA are now monitored at least weekly by AAM and Chuck Roach or his designate to minimize BCA's exposure. This will help to keep balances within FDIC insured levels. **The bank has been merged into and renamed First National Bank of Nevada, effective June 30, 2008.**

**Other Business**

- **BCA Contract Review:** Building & Grounds is currently reviewing all of BCA's contracts and vendor arrangements as well as Warranties and Guarantees. B&F Committee has offered its assistance.
- **Final Version of BCA Current Budget:** Dennis Noone will distribute copies of the approved 2008/2009 Budget to the B&F Committee members.

**New Business**

Several tasks remain as the Committee moves forward:

- Work on *Continuity Model* in case FNBA is closed by US regulators;
- Review of Reserve Components/Price changes using Win Reserve;
- Develop graph to demonstrate Budget Performance;
- Refine task to create *Narrative of Budget Line Items* in cooperation with AAM.

There being no other business the meeting was adjourned at 4:10 PM.

**The next meeting date:** Friday, August 22, 2008 at 2:30 PM at Clubhouse (unless a meeting is called earlier in July).

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 6/20/2008;  
Review of BCA Financials for April 2008;  
Review of BCA Financials for May 2008;  
B&F Recommendation to Invest BCA Reserve Funds in CD's

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loisel  
Chairman, B&F Committee

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for June 20, 2008**

1. Review / approve minutes of our last meeting (April 25, 2008)
2. Review BCA Financial Statements for April and May 2008
3. Discuss BCA Estimated Income Taxes
4. Investment of Part of BCA's Reserve Funds
5. Other Business
6. Set next meeting date

## Review of BCA Financials for April 2008

**Comments:** With a high of \$89,715 and a low of \$48,151 during the month of April Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000). The average balance for the month was \$66,073. In addition the Petty Cash Account had a balance of \$2,000. - Dale Woods, Controller of AAM, is currently reviewing AAM's accounting of Bellasera's *Income Tax Accounts* in both the General Ledger and the Budget Comparison Statement. It appears that for the current fiscal year AAM has only recorded certain tax refunds which resulted from last year's tax overpayment and did not record Bellasera's required quarterly estimated tax payments. Some of these tax payments had been deducted by the respective Tax Authorities, but not all, from the prior tax overpayments. We are awaiting Mr. Woods review.

**Income:** Slightly above budget.

**Salaries & Wages:** Slightly over budget.

**Administrative & General:** Overall under budget despite small overages in 4 individual line items.

**Contract Services:** Overall 21% over budget with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* and *Security* totaling a combined \$5,026.

**Repairs & Maintenance:** Overall under budget YTD.

**Utilities:** *Electricity*, *Gas*, *Water* and Telephone are over budget, however, overall YTD under budget.

**Income Taxes:** As mentioned in my "Comments" above Dale Woods, Controller of AAM, is currently reviewing the two line items to assure that they reflect the proper payments of Estimated Income Taxes and Tax Refunds. During the month of April an income tax refund was received from AZ State in the amount of \$400. The *Variance Report* identifies this refund as "February duplicate estimated Payment" but it was actually the payment made on March 5, 2008 which is only due by June 16, 2008. The \$84.45 Income Tax Refund received from the IRS on March 10, 2008 was booked by AAM as *Interst Income* and needs to be adjusted. AAM shows an IRS Income Tax Refund of \$3,394.21 in both the General Ledger and the Budget Comparison Statement, however, only the aforementioned \$84.45 were received while the IRS deducted estimated income tax payments due earlier and, possibly, fees from the prior overpayment of taxes last year.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity stood at the end of April 2008 at \$20,361 as per Balance Sheet prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of April 30, 2008 the total balance is \$700,610 yielding 2.62% p.a. interest vs. 3.17% p.a. in March. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder  
5/21/2008

## Review of BCA Financials for May 2008

**Comments:** With a high of \$67,370 and a low of \$28,649 during the month of May Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000). The average balance for the month was \$47,253. In addition the Petty Cash Account had a balance of \$1,758. - Dale Woods, Controller of AAM, has been reviewing AAM's accounting of Bellasera's *Income Tax Accounts* in both the General Ledger and the Budget Comparison Statement, but so far the only impact of my memo dated 4/27/2008 was a payment of \$1,500 to the IRS on May 6, 2008 which had been due on March 17. It is imperative that AAM correctly records the actual activity in BCA's *Income Tax Accounts* for the current fiscal year. We are still awaiting the results of Mr. Woods review.

**Income:** Slightly above budget.

**Salaries & Wages:** Below budget, but slightly above YTD budget

**Administrative & General:** YTD under budget, however, this category is distorted because BCA's Income Tax Payments have not been properly recorded.

**Contract Services:** YTD 2.7% over budget with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* totaling a combined \$6,562.

**Repairs & Maintenance:** Overall under budget YTD.

**Utilities:** *Electricity, Gas, Water* and *Telephone* are over budget, however, overall YTD under budget.

**Income Taxes:** As mentioned in my "Comments" above Dale Woods, Controller of AAM, is currently reviewing the two line items to assure that they reflect the proper payments of Estimated Income Taxes and Tax Refunds. As to BCA Federal Income Taxes AAM shows YTD an IRS refund of \$3,394.21 and a payment of \$1,500 for a gain of \$1,894.21 instead of an expense of \$4,500 (perhaps adjusted for IRS refunds that actually belong into the prior fiscal year) in estimated payments. As to BCA AZ State Income Taxes AAM shows YTD refunds of \$1,063.53 and payments of \$1,200 resulting in a total expense of \$136.47. Again part of the refunds belong into the prior fiscal year. AAM received a schedule of estimated income taxes due dates, namely, 10/15/07, 12/17/07, 3/17/08 and 6/16/08, from BCA's Tax Counsel. The respective amounts for the IRS are \$1,500 each and for AZ State \$400 each. These amounts should be recorded in BCA's financial records, no matter whether these amounts were paid directly or deducted from past over payments.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity stood at the end of May 2008 at \$36,766 as per Balance Sheet prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of May 31, 2008 the total balance is \$702,011 yielding 2.44% p.a. interest vs. 2.62% p.a. in April. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder  
20 June 2008

## **BCA Reserve Fund Investments**

Chuck / Dennis,

At the moment, BCA has about \$640,000 in money market funds (cash) in the Reserve Fund at Merrill Lynch as follows:

Money Market Fund: \$444,000 earning 2.16% pa (as of May 31, 2008)

Institutional Fund: \$197,000 earning 2.72% pa (as of May 31, 2008)

In addition, BCA currently holds two CD's which will mature as follows:

Washington Mutual Bank: \$20,000 -- 9/2/08

Capital One Bank: \$40,000 -- 11/10/08.

FDIC insured CD's are currently yielding approximately 3.1% to 4.1% over the 6-month to 2-year maturity range.

Bottom line -- BCA is awash in cash and there appears to be an excellent opportunity to invest in FDIC insured CD's. On this basis, the B&F Committee is recommending that we purchase five (5) FDIC insured CD's in the amount of \$90,000 each in SEPARATE banks with a maturity ranging from six months to two years. We recommend laddering the maturities over this range -- eg. 6, 9, 12, 18, 24 months. We do NOT recommend going longer than 24 months. We would recommend drawing the bulk of the funds from the Money Market Fund, leaving only enough cash to meet any known short-term Reserve Fund expenditures.

If we may be of further assistance in this matter, please let me know at your convenience.

Regards,

Clayton Loiselle

On behalf of the Budget and Finance Committee

July 11, 2008

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**August 22, 2008**

**PRESENT:** Clayton Loiselle, Carlton Rooks and Charles Schroeder

**ABSENT:** Dennis Noone

The Budget & Finance Committee Meeting was called to order at 2:40 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of June 20, 2008. As well as to review the June & July 2008 Financial Reports of BCA and to discuss the status of BCA's estimated income taxes for the prior fiscal year and the Committee's Recommendation to BOD to invest part of BCA's Reserve Funds.

**Minutes of the June 20, 2008 B&F Committee Meeting**

The Minutes of the June 20, 2008 B&F Committee meeting were reviewed and unanimously approved.

**Review of BCA Financials for June & July 2008**

See attached copies of the reviews for details. Cash balances in BCA's accounts at former First National Bank of Arizona/Nevada now Mutual of Omaha Bank remained within the FDIC insured limit (\$100K) during the two months. The *Contract Services* category had been consistently over budget (YTD \$6,956) due to *Janatorial* and *Pool/Spa* expenditures, but, now, in the new FY, is under budget. The July report (including "the prior month" figures) in the Balance Sheet reflects erroneous entries as to *Operating Owners' Equity* and *Reserve Owners' Equity* as well as to the starting balances for the new fiscal year.

**BCA Estimated Income Taxes for Prior Fiscal Year**

The June report does not properly show all estimated income payments made by or on behalf of Bellasera. Therefore, it is important that the preparation of BCA's tax returns is closely monitored to avoid over/underpayment of income taxes. The Committee recommends that the B&F Committee receives copies of the draft tax returns prior to submission to the tax authorities in order to make a recommendation to the Board that everything appears to be OK.

**BCA Reserve Fund Investments**

The Committee is still awaiting instructions and/or information about action taken by the Board to invest about \$450,000 of the reserve funds maintained at Merrill Lynch in various Bank CD's (covered by FDIC insurance). Action recommended by the Committee goes a long way towards diversifying risk and substantially increasing the return on the cash funds.

**Unfinished Business**

- **BCA Contract Review:** Building & Grounds is currently reviewing all of BCA's contracts and vendor arrangements as well as Warranties and Guarantees. B&F Committee has offered its assistance.
- **Final Version of BCA Current Budget including Reserve Plan:** Dennis Noone has committed to distribute copies of the approved 2008/2009 Budget to the B&F Committee members.

**New Business (Continued)**

Several tasks remain as the Committee moves forward:

- Review of Reserve Components/Price changes using Win Reserve;
- Develop graph to exhibit Budget Performance;
- Refine task to create *Narrative of Budget Line Items* in cooperation with AAM.

There being no other business the meeting was adjourned at 3:55 PM.

**The next meeting date:** Friday, October 24, 2008 at 2:30 PM at Clubhouse.

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 8/22/2008;  
Review of BCA Financials for June 2008;  
Review of BCA Financials for July 2008;

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for August 22, 2008**

1. Review / approve minutes of our last meeting (June 20, 2008)
2. Review BCA Financial Statements for June and July 2008
3. Discuss Status of BCA Estimated Income Taxes for prior Fiscal Year
4. Discuss Status of B&F Committee Recommendation to Invest Part of BCA's Reserve Funds
5. Unfinished Business
6. New Business (Continued)
7. Set next meeting date

## Review of BCA Financials for June 2008

**Comments:** With a high of \$67,303 and a low of \$12,786 during the month of June Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) were well within the limits set by FDIC (\$100,000). The average balance for the month was \$34,265. In addition the Petty Cash Account had a balance of \$1,416. - Despite Dale Woods', Controller of AAM, great effort of reviewing AAM's accounting of Bellasera's *Income Tax Accounts* in both the General Ledger and the Budget Comparison Statement, he has not been able to resolve the problem without engaging BCA's tax counsel. Neither the General Ledger nor the Bellasera Budget Comparison Statement shows that Bellasera has paid estimated Federal income taxes of \$1,500 each on October 15, 2007 and December 17, 2007 and \$400 of AZ State estimated income taxes on October 15, 2007. It is imperative that AAM correctly records the actual activity in BCA's *Income Tax Accounts* for the fiscal year ending June 30, 2008. To settle this issue it is recommended that a Board Member discuss the matter with BCA's tax counsel who may want to check with the respective tax authorities to make sure that BCA's income tax accounts are current.

**Income:** Slightly above budget.

**Salaries & Wages:** Slightly below budget.

**Administrative & General:** Overall YTD under budget, however, line item *Postage & Copies* which includes Newsletter expenses is YTD 60.8% over budget even after allowing for the separate budget for line item *Newsletter Expense*, mainly due to mailings of CC&R's, Newsletters and Annual Meeting materials.

**Contract Services:** YTD under budget but with overages in *Janitorial* and *Pool/Spa Maintenance Contracts* totaling a combined \$6,956.

**Repairs & Maintenance:** Overall over budget YTD \$48,747 due to Storm Repair.

**Utilities:** *Electricity, Gas* and *Telephone* are over budget, however, overall YTD under budget by \$3,998.

**Income Taxes:** As mentioned in my Comments above the bookkeeping of BCA's tax payments has to be corrected and possibly missing payments made. During June a \$400 was made to AZ State in time and another of \$1,500 to the IRS was made one week late. The *Outstanding Check List* contains two \$400 checks paid to AZ Dept. of Revenue issued by AAM on 2/19/2008 and 3/5/2008 respectively.

AAM has credited BCA with late payment charges of \$123.79 as promised.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity dropped by \$25,145 at the end of June 2008 to \$11,620 as per Balance Sheet prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of June 30, 2008 the total balance is \$708,954 yielding 2.30% p.a. interest vs. 2.44% p.a. in May. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** None until September 2008.

Charles Schroeder  
22 July 2008

## Review of BCA Financials for July 2008

**Comments:** The transition from the takeover of First National Bank of Arizona by the FDIC to the new bank *Mutual of Omaha Bank* appears to have been very smooth and, importantly, **without loss** to Bellasera. With a high of \$88,561 and a low of \$26,268 during the month of July Operating Cash Balances at the Community Association Banc (**now** a Division of Mutual of Omaha Bank) were well within the limits set by FDIC (\$100,000). The average balance for the month was \$59,022. In addition the Petty Cash Account had a balance of \$1,102.

I noted a substantial shift in funds from *Reserve Owners Equity* to *Operating Owners Equity* to wit: The June 2008 Balance Sheet as presented by AAM showed *Operating Owners Equity* of \$11,620.25 while now both the July and the “revised” June figures show \$249,486.16 as the starting balance for the new fiscal year 2008/2009. The difference of \$239,282.82 represents the decline in *Reserve Owners Equity*. To me this change makes no sense.

The B&F Committee has not, as yet, received the final Board approved version of the Bellasera 2008/2009 Budget, so I do not know which version AAM is working with. In any event, the Income portion of the Bellasera Budget Comparison Statement (BBCS) reflects quarterly budget figures to compare to monthly actuals while the rest of the BBCS shows the usual monthly budget amounts. This should be corrected.

**Income:** Slightly above budget.

**Salaries & Wages:** 16% over budget. It appears that salary increases (if any) were not known at budget time.

**Administrative & General:** YTD 51% over budget, mainly due to mailings of CC &R's, Newsletters, and Freezer and Showerhead repair as well as replacement of missing weights. The latter three items should not be recorded in line item *Meeting & Community*.

**Contract Services:** YTD under budget.

**Repairs & Maintenance:** Overall over budget 97% due to Repair of HVAC, Electrical & Transformers and replacement of Light Bulbs.

**Utilities:** *Electricity* is over budget, however, overall under budget by \$2,178.

**Income Taxes:** No activity, but see my review of the previous month to be sure we know what income taxes were paid by Bellasera and are there still any income taxes due. B&F should receive a draft copy of the proposed taxes to be paid by Bellasera for FY 2007/2008.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity increased by \$204,335.98 at the end of July 2008 to \$215,956 as per Balance Sheet prepared by AAM. (See my comments above).

**Replacement Reserve Account at Merrill Lynch:**

As of July 31, 2008 the total balance is \$761,227 yielding 2.26% p.a. interest vs. 2.30% p.a. in June. Of this amount \$60,000 are invested in CD's.

**Forthcoming CD Maturities:** September 2, 2008, \$20,000.

Charles Schroeder  
August 20, 2008

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**November 10, 2008**

**PRESENT:** Clayton Loisel, Carlton Rooks and Charles Schroeder

**ABSENT:** Dennis Noone

The Budget & Finance Committee Meeting was called to order at 2:40 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of August 22, 2008. As well as to review the August & September 2008 Financial Reports of BCA and to discuss the status of BCA's estimated income taxes and the Committee's Recommendation to BOD to invest additional BCA's Reserve Funds in Bank Certificates of Deposit covered by FDIC insurance.

**Minutes of the August 22, 2008 B&F Committee Meeting**

The Minutes of the August 22, 2008 B&F Committee meeting were reviewed and unanimously approved.

**Review of BCA Financials for August & September 2008**

See attached copies of the reviews for details. Operating Cash balances in BCA's accounts at Community Association Bank (a Division of Mutual of Omaha Bank) remained within the FDIC insured limit (\$100K) during the two months under review. AAM has adjusted the respective *Owners' Equity* Funds as previously recommended by the Committee. The small Overdraft in the Reserve Account at Merrill was due to drawing a check larger than the MMA balance and a need to draw also against the Institutional MMA. *Repairs & Maintenance* was over budget 48% due to expenses for Clubhouse, Rec. Equip. and Tree Pruning. *Utilities* were over budget due to Water Bill covering two months instead of one.

**BCA Estimated Income Taxes**

The pending tax issue with the Arizona Department of Revenue (AZDOR) is in the process of being resolved. (See enclosed Summary Sheet by Paul Hansen, CPA and Bellasera Tax Advisor). Additional payments of Interest and Late Charges will be reimbursed by AAM.

**BCA Reserve Fund Investments**

The Committee is awaiting information from BOD as to an additional investment of \$180,000 of the reserve funds maintained at Merrill Lynch in two Bank CD's (covered by FDIC insurance). By the time of writing, it has been established that, indeed, two CD's were purchased totaling \$180,000. The Committee may recommend investing further funds once BOD has established the approximate amount of funds needed to cover additional expenditures.

**New Business**

Several tasks remain as the Committee prepares for next year's Budget process:

- Need existing and new Contracts to review ;
- Need a Narrative of Budget Line Items;
- Need input from B&G Committee and AAM and possibly from other committees.

There being no other business the meeting was adjourned at 4:20 PM.

**The next meeting date:** Friday, December 19, 2008 at 4:30 PM at Clubhouse.

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 11/10/2008;  
Review of BCA Financials for August 2008;  
Review of BCA Financials for September 2008;  
Summary of Tax Payments to AZDOR by Paul Hansen.

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for November 10, 2008**

1. Review / approve minutes of our last meeting (August 22, 2008)
2. Review BCA Financial Statements for August and September 2008
3. Recommendation of investing additional Reserve Funds in CD's
4. Status of prior year Bellasera Income Taxes
5. Unfinished Business
6. New Business
7. Next Meeting Date

## Review of BCA Financials for August 2008

**Comments:** The recommendation of B&F Committee to invest \$450,000 of Bellasera's Cash Reserves in FDIC insured CD's with varying maturities was approved by the BCA Board but only to the extent of \$270,000. Action was taken and served to enhance both risk protection and investment returns. In the meantime, Bank of America has agreed to take over Merrill Lynch providing additional credit risk protection for BCA.

As first noted in my "July Review", a substantial shift in funds from *Reserve Owners Equity* to *Operating Owners Equity* took place in July as of June 30, 2008, to wit: The June 2008 Balance Sheet as presented by AAM showed *Operating Owners Equity* of \$11,620.25 while now both the July and the "revised" June figures show \$249,486.16 as the starting balance for the new fiscal year 2008/2009. The difference of \$239,282.82 represents the decline in *Reserve Owners Equity*. **The B&F Committee recommends that<sup>[CFAS1]</sup> this shift of funds be reversed to correspond to the actual Total Operating Funds and Total Reserves shown in the Bellasera Balance Sheet as of 8/31/2008.**

With a high of \$26,268 and a low of \$4,153 during the month of August Operating Cash Balances at the Community Association Banc were well within the limits set by FDIC (\$100,000). The average balance for the month was \$13,022. In addition the Petty Cash Account had a balance of \$1,102.

The Merrill Lynch Statement for August shows that in the Operating Account several small<sup>[CFAS2]</sup> overdraft loans were repaid totaling \$2,141. It is not clear why there were any overdraft loans required during August, as the Account Starting Balance was \$95,849 and the Ending Balance was \$83,881 and total activity in the account was less than \$13,000.

**Income:** Slightly above budget.

**Salaries & Wages:** Under budget.

**Administrative & General:** YTD 5% over budget, mainly due to *Copies & Postage*, Freezer and Showerhead repair as well as replacement of missing weights. The latter three items should not be recorded in line item *Meeting & Community*.

**Contract Services:** YTD under budget.

**Repairs & Maintenance:** YTD over budget 73% due to Repair of HVAC, Electrical & Transformers, Pool Repairs/Supplies and replacement of Light Bulbs.

**Utilities:** YTD overall under budget by \$5,384.

**Income Taxes:** No activity.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity increased at the end of August 2008 to \$241,739 as per Balance Sheet prepared by AAM. **(But see my comments above).**

### **Replacement Reserve Account at Merrill Lynch:**

As of August 31, 2008 the total balance is \$762,159 yielding 2.25% p.a. interest vs. 2.26% p.a. in July. Of this amount \$330,000 were invested in CD's.(See table below).

**Forthcoming CD Maturity:** September 2, 2008, \$20,000.

Charles Schroeder, September 23, 2008

### **BCA Reserve Fund Investments at Merrill Lynch as of September 23, 2008**

<b>Date</b>	<b>Bank</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Maturity</b>
8-16-05	Capital One	\$40,000	3.4 %	11-10-2008
8-28-08	Wash. Mutual	\$90,000	3.55%	9-4-2009
8-28-08	Bk of Cascades	\$90,000	3.75%	3-5-2010
8-28-08	City National	\$90,000	4.05%	9-3-2010
	<b>Total</b>	\$310,000		

## Review of BCA Financials for September 2008

**Comments:** The Board may wish to invest an additional amount of \$180,000 in Certificates of Deposit in line with the prior recommendation of the B&F Committee, in particular, as another CD of \$40,000 will mature on November 10, 2008. This will both enhance the risk protection as well as BCA's investment return. As I pointed out during last month's Board Meeting BCA's accounts at Merrill Lynch (ML) are covered by SIPC, as well as additional insurance of \$1,900,000 per account as arranged by ML at Lloyd's of London and, finally, under the Bank of America umbrella, once the merger between BofA and ML has become effective.

With a high of \$54,526 and a low of \$7,631 during the month of September Operating Cash Balances at the Community Association Banc were well within the limits set by FDIC (\$100,000). The average balance for the month was \$27,728. In addition the Petty Cash Account had a balance of \$895.

**Income:** Slightly above budget.

**Salaries & Wages:** In line with YTD budget.

**Administrative & General:** *Postage & Copies* over budget \$1,402 or 255%. No explanation has been provided.

**Contract Services:** YTD under budget.

**Repairs & Maintenance:** 48% over budget due to repairs of Clubhouse, Rec. Equip. and Tree Pruning.

**Utilities:** Over budget due to water increase of \$2,165 or 172%. No explanation given.

**Income Taxes:** Over budget due the fact that a \$1,122 total of Fed and State taxes was paid out of the current budget, while, in the past, it would have been charged to the prior FY. It should be noted that among the list of outstanding checks there are two checks for \$400 each payable to the Arizona Department of Revenue (ADOR) and which are dated February 19, 2008 and March 5, 2008, respectively. BCA's Tax Counsel is currently reviewing Bellasera's Tax Account with ADOR to receive clarification on several issues.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity increased at the end of September 2008 to \$15,420 (adjusted) as per Balance Sheet prepared by AAM. **(But see my comments under *Income Taxes* above as to what FY to charge).**

**Replacement Reserve Account at Merrill Lynch:**

As of September 30, 2008 the total balance is \$764,429 yielding 2.89% p.a. interest vs. 2.25% p.a. in August. Of this amount \$310,000 were invested in CD's. (See table below).

**Forthcoming CD Maturity:** November 10, 2008, \$40,000.

**BCA Reserve Funds at Merrill Lynch invested in FDIC insured CDs as of 10/19/08**

Date Acquired	Bank	Amount	Interest Rate	Maturity
11-01-04	Capital One	\$40,000	3.4 %	11-10-2008
8-25-08	JPMorganChase	\$90,000	3.55%	9-4-2009
8-26-08	Bk of Cascades	\$90,000	3.75%	3-5-2010
8-25-08	National City	\$90,000	4.05%	9-3-2010
	<b>Total</b>	\$310,000		

Charles Schroeder  
October 19, 2008

**Bellasera Community Association, Inc.**  
**Summary of Tax Payments to the Arizona Department of Revenue**

**28-Oct-08**

**from Paul Hansen, CPA  
 10/29/08**

<b>CHECK DATE</b>	<b>CHECK NUMBER</b>	<b>CHECK AMOUNT</b>	<b>CHECK STATUS</b>	<b>Tax Year Applied to</b>	
1/31/2006		222	Cashed	6/30/2006	
6/9/2006		443.37	Cashed	6/30/2006	
10/6/2006	626	222	Cashed	6/30/2007	
12/8/2006	719	222	Cashed	6/30/2007	
2/12/2007	789	227.01	Cashed	6/30/2006	
6/11/2007	925	222	Cashed	6/30/2007	
8/31/2007	1018	1472	Cashed	6/30/2007	
			<b>Not</b>		
2/19/2008	1158	400	<b>Cashed</b>	6/30/2008	Note 2:
2/19/2008	1159	400	Cashed	6/30/2008	Note 1:
			<b>Not</b>		
3/5/2008	1173	400	<b>Cashed</b>	6/30/2008	Note 2:
6/12/2008	1281	400	Cashed	6/30/2008	
9/9/2008	1398	539	Cashed	6/30/2008	
9/10/2008	1368	500	Cashed	6/30/2009	

Note 1: The representative from AZDOR stated that this payment was received and incorrectly applied to the 6/30/07 tax year, which did not have a balance due and that is why the Association was sent a refund on 4/16/08

Note 2: As of 10/3/08, these checks had not yet been cashed. It is unclear what happened to the checks. However, we recommend that the Association void the checks and pay the invoice from the AZDOR when it is received. On the 6/30/08 income tax return, we reported that the Association had made estimated payments of \$1,200. (We believed that four payments of \$400 had been made, but one had been refunded.) It appears that the Association made four payments of \$400, but one was refunded due to AZDOR's error and two were never cashed. Therefore, Page 1 of the 6/30/08 State of Arizona income tax return should have reflected a balance due of \$1,339, versus \$539. The Association should be receiving, or should have already received a notice of a balance due to the AZDOR due to the two checks, which were never cashed. We recommend that the association pay the balance due.

My Contact at the Arizona Department of Revenue: Connie Olson (Fiscal Service Unit Manager). (602)716-6750.

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**December 19, 2008**

**PRESENT:** Clayton Loiselle, Carlton Rooks and Charles Schroeder  
**ABSENT:** Dennis Noone

The Budget & Finance Committee Meeting was called to order at 4:35 PM. A quorum was present.

**Purpose of the Meeting**

To review and approve the B&F Committee Meeting Minutes of November 10, 2008. As well as to review the October & November 2008 Financial Reports of BCA and to discuss other matters as outlined in the enclosed *Meeting Agenda*.

**Minutes of the November 10, 2008 B&F Committee Meeting**

The Minutes of the November 10, 2008 B&F Committee meeting were reviewed and unanimously approved as annotated.

**Review of BCA Financials for October & November 2008**

See attached copies of the reviews for details. Operating Cash balances in BCA's accounts at Community Association Bank (a Division of Mutual of Omaha Bank) remained within the FDIC insured limit (\$100K) during the two months under review. The Committee discussed the fact that *Owners' Operating Equity* turned **negative** by \$21,834 at the end of October. Several factors are responsible for this: **a)** the transfer of \$80,000 to Reserves during the prior FY caused the beginning balance of the current FY to drop to \$10,203 (the B&F Committee had recommended to maintain a balance of \$40,000); **b)** AAM's accounting system breaks the quarterly received dues income into monthly installments while transfers to Reserves occur at the beginning of the quarter in a lump-sum to maximize interest income; **c)** finally, *Receivables* (mostly dues and fees) reached \$14,356 in October due to late receipt of dues. The amount dropped to \$9,140 in November and represent "core" receivables that have been growing over time. The line item *Postage & Copies* reached \$3,799 or 113% over budget YTD. Viola may have an explanation.

**BCA Estimated Income Taxes**

Viola Lanam confirmed that BCA's income tax payments are now current as of December 15, 2008.

**BCA Reserve Fund Investments**

The Committee is awaiting information from BOD as to an additional investment of \$50,000 of the reserve funds maintained at Merrill Lynch in a CD's (covered by FDIC insurance). This investment had been approved by BOD on November 19 and should be made as soon as possible. Any delay can be very costly (the FED earlier this week had

lowered the Fed funds Rate by  $\frac{3}{4}$  % which would mean foregone earnings of \$1,125 for a 3 year investment of \$50,000).

**BCA Budget Preparation for FY 2009/2010**

Prior to the meeting Clayton distributed a blank draft template of Operations Budget Accounts, a spreadsheet that can be used to fill in amounts of prospective expenses as the Committee develops the new BCA Budget for FY 2009/2010. Viola Lanam also has done preparatory budget work and is currently reviewing BCA's supplier and service provider contracts. She will take a first crack at the new Budget. She also has a list of accounts **and** that includes narratives. We will have working sessions in early February and if necessary earlier. Besides B&G other committees will be invited and/or will be asked to inform B&F about their input/needs.

There being no other business the meeting was adjourned at 5:35 PM.

**The next meeting date:** Friday, January 23, 2009 at 2:30 PM at the Clubhouse.(\*)

**Enclosures:** Meeting Agenda for B&F Committee Meeting on 12/19/2008;  
Review of BCA Financials for October 2008;  
Review of BCA Financials for November 2008;

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

(\* Rescheduled to Friday January 30, 2009 at 2:30 PM at the Clubhouse, due to late receipt of December 2008 BCA Financials.

**Bellasera Community Association  
Budget & Finance Committee**

**Meeting Agenda for December 19, 2008**

1. Review / approve minutes of our last meeting (November 10, 2008)
2. Review BCA Financial Statements for October and November 2008
3. Status of investing additional \$50,000 Reserve Funds in CD's
4. BCA Budget Preparation for FY 2009/2010
5. Unfinished Business
6. New Business
7. Next Meeting Date

## Review of BCA Financials for October 2008

**Comments:** With a high of \$87,874 and a low of \$54,491 during the month of October Operating Cash Balances at the Community Association Banc were well within the limits set by FDIC (\$100,000). The average balance for the month was \$73,249. In addition the Petty Cash Account had a balance of \$849. - It should be noted that the quarterly transfer to Reserves of \$53,930 was recorded by AAM as of October 13, 2008, even though, the actual transfer was only effected on November 6, 2008.

**Income:** Slightly above budget.

**Salaries & Wages:** In line with YTD budget.

**Administrative & General:** Under budget. *Postage & Copies* under budget, but \$3,452 or 23% over budget so far this FY.

**Contract Services:** YTD under budget.

**Repairs & Maintenance:** 61% over budget mainly due to *Storm Damage* repairs.

**Utilities:** Under budget.

**Income Taxes:** Estimated Federal Income Taxes of \$1,000 due on 10/15/08 were **paid late** on 10/28/08. The *State Income Tax Account* was credited with \$800 representing stop payments issued on two checks AZDOR claims not to have received. An amount of \$802.93 (including penalty/interest) was due on October 15 and was **paid late** on November 19, 2008.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity turned **negative** at the end of October 2008 to (\$21,834) as per Balance Sheet prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of October 31, 2008 the total balance is \$758,004 yielding 3.17% p.a. interest vs. 2.89% p.a. in September. Of this amount \$310,000 were invested in CD's. (See table below).

**Forthcoming CD Maturity:** November 10, 2008, \$40,000.

**BCA Reserve Funds at Merrill Lynch invested in FDIC insured CDs as of 10/31/08**

Date Acquired	Bank	Amount	Interest Rate	Maturity
11-01-04	Capital One	\$40,000	3.4 %	11-10-2008
8-25-08	JPMorganChase	\$90,000	3.55%	9-4-2009
8-26-08	Bk of Cascades	\$90,000	3.75%	3-5-2010
8-25-08	National City	\$90,000	4.05%	9-3-2010
	<b>Total</b>	\$310,000		

Charles Schroeder  
December 15, 2008

## Review of BCA Financials for November 2008

**Comments:** With a high of \$84,936 and a low of \$3,138 during the month of November Operating Cash Balances at the Community Association Banc were well within the limits set by FDIC (\$100,000). The average balance for the month was \$29,227. In addition the Petty Cash Account had a balance of \$1,110.

**Income:** Slightly above budget.

**Salaries & Wages:** In line with YTD budget.

**Administrative & General:** Under budget YTD. *Postage & Copies* over budget, \$3,799 or 113% so far this FY.

**Contract Services:** YTD under budget.

**Repairs & Maintenance:** 69% over budget YTD in various areas.

**Utilities:** Under budget by 25% YTD.

**Income Taxes:** According to Viola Lanam BCA Income Tax payments are current now up to and including December 15, 2008.

**Insurance:** Slightly over budget. An insurance policy premium increase became effective in April.

**Owners' Equity:** Operating Owners' Equity remains **negative** at the end of November 2008 at (\$4,815) as per Balance Sheet prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of November 30, 2008 the total balance is \$804,539 yielding 3.33% p.a. interest vs. 3.17% p.a. in October. Of this amount \$450,000 were invested in CD's.(See table below).

**Next CD Maturity:** September 4, 2009, \$90,000.

**BCA Reserve Funds at Merrill Lynch invested in FDIC insured CDs as of 11/30/08**

Date Acquired	Bank	Amount	Interest Rate per annum	Maturity
8-25-08	JPMorganChase	\$90,000	3.55%	9-4-2009
8-26-08	Bk of Cascades	\$90,000	3.75%	3-5-2010
11-03-08	Capital One	\$90,000	3.75%	5-12-2010
8-25-08	National City	\$90,000	4.05%	9-3-2010
11-03-08	Am Express Bk	\$90,000	4.25%	11-12-2010
	<b>Total</b>	<b>\$450,000.00</b>	<b>3.87%</b>	

Charles Schroeder

December 16, 2008