

**BELLASERA COMMUNITY ASSOCIATION**  
**Budget & Finance Committee Meeting Minutes**  
**October 19, 2007**

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

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 July 19, 2007 and to review the June through August 2007 Financial Reports of BCA (September 2007 Financials due 10/15 were not available at the time) as well as to discuss other business as per attached Meeting Agenda.

**Minutes of the July 9, 2007 B&F Committee Meeting**

The Minutes of the July 9, 2007 B&F Committee meeting were reviewed and unanimously approved.

**Review of BCA Financials for June through August 2007**

See attached copies of the three reviews for details. Excess cash balances in BCA's accounts at First National Bank of Arizona above the FDIC insured limit and the limit set by BOD remained a key concern throughout the 3 months period. The July Balance Sheet in the column entitled *Prior Period* does not correctly present the actual balances in the Operating Equity and Reserve Equity accounts of the prior month. (See enclosed table). The August 2007 financials show in both the *Check History Report* and the *General Ledger* that payments of \$5,739 to IRS and \$1,472 to AZ Revenue were made during the month. but no tax payments are reflected in the *Budget Comparison Statement* for August. These payments were made to satisfy BCA's income tax liability for the prior fiscal year and, apparently, did not take into consideration that BCA already made the required estimated tax payments of \$3,528 to IRS and \$893.01 to AZ Revenue likely resulting in a substantial over-payment. (See tax table enclosed).

**Ongoing "over exposure" at First National**

The Committee is working hard to push alternative banking options to have a proposal for BOD to make a decision as soon as possible.

**Potential banking relationship with Chase**

The Committee has developed an Account Analysis of BCA's Operating Accounts to serve as a basis for discussions with alternative banks using actual figures of the last Fiscal Year. The attached table includes input from Chase as to Minimum Balance requirements (for payment of interest purposes), the current rate of interest on daily sweeps to a Money Market Account and the related bank fee. Compared to last year we would have generated an additional \$7,300 of interest income. We have also developed an Operating Bank Account Spec Sheet (enclosed). The key here is not only to have a secure and smooth technical operation, timeliness and flexibility of execution to satisfy the needs of BCA and its members but also to enhance the profitability of BCA's banking relationship. We are expecting a draft proposal from Chase early next week.

**Reserve fund cash need forecast for the next five of years**

Dennis will distribute the latest five year forecast to the members of BFC.

**Overpayment of BCA Income Taxes**

Once the correct amount of income taxes to be paid by BCA for the last fiscal year has been established an amended tax return should be filed.

**Obtain copies of critical vendor contracts / tax returns**

Marshall Chess has distributed copies of the top four contracts and/or amendments and Dennis will ask that copies of the smaller contracts (also electronically filed) be distributed to BFC members as well.

**WinReserve Software License Fee**

Dennis confirmed that the Board has approved to pay the annual License Fee of \$250.00.

There being no other business the meeting was adjourned at 4:35 PM.

The next meeting: Wednesday, November 28, 2007 at 2:30 PM at the Bellasera Clubhouse.

Enclosures: Meeting Agenda for B&F Committee Meeting on 10/19/2007; Reviews of BCA Financials for June through August 2007; Fund Balance Comparison between 7/31/2007, "Prior Period" and 6/30/2007; BCA Estimated Income Tax Table; copy of Clayton's Operating Bank Account Specs and latest version of Operating Bank Account Analysis.

Prepared by:

Approved by:

Charles Schroeder  
Recording Secretary, B&F Committee

Clayton Loiselle  
Chairman, B&F Committee

**BCA Budget & Finance Committee  
Meeting Agenda  
10/19/2007 2:30 PM**

1. Approve minutes of last meeting of B&F Committee (July 9, 2007)
2. Review financial statements for June, July, August, and September (due October 15)
3. Ongoing "over exposure" to First National Bank of Arizona.
4. Potential banking relationship with Chase.
5. Reserve fund cash forecast for the next couple of years.
6. Preliminary plans / progress toward the annual reserve plan update.
7. Overpayment of BCA income taxes.
8. Obtain copies of critical vendor contracts / tax returns -- identify specifics.

## Review of BCA Financials for June 2007

**Comments:** This is the final month of BCA's Fiscal Year 2006/2007 which ended with an Operating Surplus of \$5,433 or 1.1% of the total Budget. BCA's Replacement Reserves now stand at \$469,672, a gain of \$65,980 or 16.3% since the begin of the Fiscal Year. These are respectable results and the financial condition of BCA remains solid. -

**It should be noted that during the month of June Bellasera's Total Cash Balances at First National Bank of Arizona exceeded the FDIC insurance limit of \$100,000 on the last 3 days of the month.** The balances totaled between \$103,075.01 and \$112,097.00. In addition, the \$50,000 limit set by BOD for balances maintained at First National Bank of Arizona was exceeded on 8 different days in June. The *Check History Report* now also includes checks drawn against the Bellasera Reserve Account at Merrill Lynch as had been recommended by BFC. There were 2 checks drawn against the BCA Reserve account at Merrill: 1) payable to Rodney Robinson d/b/a Arrowhead for \$1,079.73 and 2) one payable to Rodney Robinson for \$1,827.40. Earlier this week Merrill Lynch Operations had some concern about a check payable to Rodney Robinson. **It is recommended that checks issued by BCA in favor of the contracting company Arrowhead Chlorination for services rendered be made payable to the company and not to the individual, Rodney Robinson.** This would also conform to the appropriate entries as recorded in Bellasera's General Ledger.

**Income:** In line with budget.

**Salaries & Benefits:** This line item is over budget YTD \$9,764.17 or 55.17% due to x-mas bonuses, etc.

**Administrative & General:** Overall over budget YTD \$1,398.45. An overage of \$731.00 for the month in *Legal Fees* was for the final review of BCA's governing documents and a dog leash opinion. *Newsletter* expenses were again included in *Postage and Copies* and with \$1,200 (sic!) for CC&R/Bylaws distribution caused an overage of \$1,965.14.

**Contract Services:** YTD under budget (\$6,502). MTD under budget \$1,498.

**Repairs & Maintenance:** In line. YTD \$1,226 over budget.

**Parts & Supplies:** Overall under budget YTD and MTD.

**Utilities:** YTD *Electricity* and *Water* are under budget and *Gas* is over budget by \$14,408 or 38.9% due to higher rates and an increase in the pool temperature.

**Taxes:** Estimated income taxes were paid totaling \$1,104.

**Insurance:** Within Budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of June 2007 at \$124,073.35, a gain of \$17,957.25 as per B/S prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of June 30, 2007 the total balance is \$493,065.51 and yields 4.85% p.a. interest vs. 4.78% p.a. in May.

The **Reserve Owners' Equity** calculated by AAM was \$469,671.49 as of 6/30/2007.

This includes three checks totaling \$24,904.76 for Stucco Wall Painting and Pool Repair that have not yet been presented for payment.

**Forthcoming CD Maturities:** The next CD in the amount of \$50,000 has matured on 7/13/2007. In the latter part of August (on 8/24 \$40,000 and on 8/28 \$194,000) a total of \$234,000 will mature and then in early September \$20,000. The B&F Committee will monitor prevailing interest rates at the time and provide recommendations.

## Review of BCA Financials for July 2007

**Comments:** Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) exceeded the limits set by FDIC and the BCA Board on every single day in July with the lowest balance of \$112,738.92 and the highest \$164,538.92. Given the current credit environment this represents a high risk.

The Balance Sheet as of 7/31/2007 shows, as is customary, the respective B/S items of the prior period, however, the figures for the *Owners' Operating Equity* and the *Owners' Reserve Equity* deviate substantially from the 6/30/2007 Balance Sheet. AAM states this is due to BCA's "unique" requirement to separate Operating Equity Funds from Reserve Equity Funds and seems to be a problem for AAM's system. Indeed, the prior month numbers have not changed. Also, the transfer to Reserves of \$45,285 shown in the income statement was not effected in July but on **August 30, 2007!**

**Income:** In line with budget.

**Salaries & Benefits:** In line with budget.

**Administrative & General:** Overall under budget.

**Contract Services:** Overall under budget.

**Repairs & Maintenance:** Overall over budget \$2,339 due to *Landscape and Pool/Spa repairs*.

**Parts & Supplies:** Combined with preceding group of line items.

**Utilities:** Overall in line with budget.

**Taxes:** No activity.

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of July 2007 at \$98,757.41 as per B/S prepared by AAM, however, actually it was higher by \$45,285. See my comments above.

**Replacement Reserve Account at Merrill Lynch:**

As of July 31, 2007 the total balance is \$471,655.36 yielding 4.94% p.a. interest vs. 4.85% p.a. in June.

The **Reserve Owners' Equity** calculated by AAM was \$515,314.33 as of 7/31/2007. Again this includes the \$45,285 that were only transferred at the end of August.

**Forthcoming CD Maturities:** The next CD in the amount of \$50,000 has matured on 7/13/2007. In the latter part of August (on 8/24 \$40,000 and on 8/28 \$194,000) a total of \$234,000 will mature. The B&F Committee will continue to monitor prevailing interest rates and provide recommendations.

## Review of BCA Financials for August 2007

**Comments:** Once again, Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) exceeded the limits set by FDIC and the BCA Board on all but two days in August with the lowest balance of \$121,901.83 and the highest \$154,908.48. Given the continued fragile credit environment this represents an undesired high risk.

**Income:** In line with budget.

**Salaries & Benefits:** In line with budget.

**Administrative & General:** Overall under budget.

**Contract Services:** Overall under budget.

**Repairs & Maintenance:** Overall over budget \$1,814.33 due to *Storm Damage* and acquisition of *Gate Transmitters*.

**Utilities:** Overall in line with budget.

**Taxes:** No activity reported. However, the General Ledger Book shows that a total of \$7,211 was paid during August to the IRS and the AZ Revenue to satisfy BCA's tax liability for the year 2006. This sounds like an awfully high amount given the fact that BCA already had paid estimated taxes totaling \$4,411.01. The total of \$11,622.10 would be nearly 3 times the budgeted amount. **This needs immediate attention!**

**Insurance:** Slightly over budget.

**Owners' Equity:** Operating Owners' Equity stood at the end of August 2007 at \$108,420.51 as per B/S prepared by AAM.

**Replacement Reserve Account at Merrill Lynch:**

As of August 31, 2007 the total balance is \$517,172.99 yielding 4.62% p.a. interest vs. 4.94% p.a. in July. The balance agrees with AAM's calculation.

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

Charles Schroeder

<b>BCA 7 31 2007 Fund Balance Comparison</b>			
<b>Fund Balance</b>	<b>7/31/2007</b>	<b>“Prior Period”</b>	<b>6/30/2006</b>
Operating Owners’ Equity	\$124,073.35	\$190,053.25	\$118,504.45
Current Yr Surplus/(Deficit) Ops	(\$25,315.94)	\$0.00	\$5,568.90
Subtotal - OPS	\$98,757.41	\$190,053.25	\$124,073.35
Reserve Owners’ Equity	\$469,671.49	\$403,691.59	\$403,691.59
Current Yr Surplus/(Deficit) Reserves	\$45,642.84	\$0.00	\$65,979.90
Subtotal - Reserve	\$515,314.33	\$403,691.59	\$469,671.49
Total Fund Balance	\$614,071.74	\$593,744.84	\$593,744.84

Note the difference between the OPS sub-totals in the two right columns, as well as the difference between the Reserve sub-totals also in the two right columns.

Comparison of actual BCA Owners’ Equity Amounts at June 30, 2007 vs. changes presented with July 2007 BCA Financials

**BCA Estimated Federal and State Income Taxes paid in FY 2006/7**

<u>Date</u>	<u>Federal Amount</u>	<u>Date</u>	<u>State Amount</u>
July	0	July	0
August	0	August	0
September	0	September	0
6-Oct	\$882.00	6-Oct	\$222.00
November	0	November	0
8-Dec	\$882.00	8-Dec	\$222.00
January	0	January	0
February	0	28-Feb	\$227.01
6-Mar	\$882.00	March	0
April	0	April	0
May	0	May	0
7-Jun	<u>\$882.00</u>	7-Jun	<u>\$222.00</u>
Total	\$3,528.00	Total	\$893.01
<b>Grand</b>	<b>Total:</b>		<b>4421.01*</b>

\* In October 2006 AAM received a \$10.00 credit which may or may not relate to BCA Income Taxes.

AAM credited this amount to the Federal Income Tax Account.

**BELLASERA COMMUNITY ASSOCIATION**  
**Operating Bank Account Specifications**  
**August 2007**

Purpose: HOA operating / checking account (DDA)  
Optimize cash management

Type: Daily sweep account (excess funds transfer to MMA  
overnight)

Functions: Pay HOA routine operating expenses by check, ACH or  
other methods  
Consolidate multiple payments to single vendor (eg. APS)  
Receive HOA member quarterly dues payments  
Periodic transfers to HOA reserve account at Merrill  
Lynch

Reporting: Identify withdrawals (payees)  
Identify deposits (payors)

Members: 360 homes, quarterly payment of dues

Notification: Dues notification prepared and issued by management  
company (AAM)

Balances: Average High \$350,000  
Average Low \$250,000

Checks: Typically 40 checks per month

Deposits: Paper check deposits  
ACH payments  
Other payment methods (eg. VISA)

Access: Online with levels of access / security

Other Issues: How to track member deposits?  
How to efficiently transition to new system?  
FDIC insurance limit in DDA?  
Credit quality in MMA?