

BELLASERA COMMUNITY ASSOCIATION
Budget & Finance Committee Meeting Minutes
November 28, 2007

PRESENT: Clayton Loisel, Carlton Rooks and Charles Schroeder

ABSENT: Dennis Noone

OBSERVER: David Redman

The Budget & Finance Committee Meeting was called to order at 2:35 PM. A quorum was present. Chairman Loisel welcomed David Redman, Assistant Treasurer of the Bellasera BOD, to our meeting.

Purpose of the Meeting

To review and approve the B&F Committee Meeting Minutes of October 19, 2007 and to review the September and October 2007 Financial Reports of BCA as well as to discuss other business as per attached Meeting Agenda.

Minutes of the October 19, 2007 B&F Committee Meeting

The Minutes of the October 19, 2007 B&F Committee meeting were reviewed and unanimously approved as amended.

Review of BCA Financials for September and October 2007

See attached copies of the two reviews for details. Excess cash balances in BCA's accounts at First National Bank of Arizona above the FDIC insured limit (\$100K) and the limit set by BOD (\$50K) remained a key concern throughout the 2 month period. The FDIC limit was exceeded on 4 days and the BOD limit on 11 days in September. In October the FDIC limit was exceeded on 24 days and the BOD limit was exceeded on every day of the month. Some of these overages could have been avoided if \$40,000 had not been transferred from Merrill Lynch on 9/19/07 (FNBA statements show that there was no need for the transfer) and the transfer to Reserves of \$45,285 had occurred at the beginning of the month rather than on 10/26/07. Also, the month end Balance Sheet for September reflects the return of the \$40,000 to Merrill Lynch while in fact the actual return took only place on October 18, 2007.

Ongoing "over exposure" at First National

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

Bellasera Community Association Banking Relationship Issues

Please see the attached Analysis prepared by Clayton. - A sort of proposal received from Chase does not look too promising, partly because BCA's size does not appear to be a worthwhile prospect for the bank, thus their fees have been fixed at prohibitive levels. The next step will be a meeting by B&F Committee members with Merrill Lynch to explore a widening of our existing relationship with them.

Reserve fund cash need forecast for the next five of years

The five year forecast was not received at the time of the meeting, but has subsequently been received.

Obtain copies of critical vendor contracts / tax returns

Marshall Chess has distributed copies of the top four contracts and/or amendments and copies of the smaller contracts (also electronically filed) have not been distributed to BFC members as yet. David Redman was kind enough to make a list of BCA contractors available to the Committee members.

WinReserve Software License Fee

The payment of the annual License Fee of \$250.00 has been effected on 10/31/2007. We now have to find out whether the new software package was received by BCA.

There being no other business the meeting was adjourned at 4:45 PM.

The next meeting date: Friday, January 25, 2008 at 2:30 PM at the Bellasera Clubhouse.

Enclosures: Meeting Agenda for B&F Committee Meeting on 11/28/2007;
Reviews of BCA Financials for September and October 2007;
Clayton's analysis entitled *Bellasera Community Association – Banking Relationship Issues*.

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 28, 2007

1. Review / approve minutes of our last meeting (October 19, 2007)
2. Review financial statements (prepared by Charles Schroeder)
3. Discuss BCA banking relationship -- see attached analysis by Clayton Loiselle
4. Other new business
5. Set next meeting date

Review of BCA Financials for September 2007

Comments: According to BCA's 9/30/2007 bank statements Bellasera had cash of \$233,616 in its OPS accounts and \$519,016 in its Reserve Account for a total of \$752,631. Subsequent adjustments made by AAM brought this amount down by about \$30,000 to \$722,541. Thru efforts of BOD and BFC the level of interest income has considerably increased. In September - without special income - \$2,451 total interest income was received which would result in annualized income of \$29,408. **Overall the financial condition of Bellasera is sound.** Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) exceeded the limits set by FDIC (\$100,000) on 4 days and the BCA Board (\$50,000) on 11 days in September. Some of the overages could have been avoided had AAM not transferred \$40,000 from Merrill to FNBA on 9/19/2007 while existing balances in the FNBA account exceeded \$35,000 and were rising until month end subsequent to which the funds were returned. The BCA Variance Reports need more work to provide better information.

Income: In line with budget.

Salaries & Benefits: Under budget.

Administrative & General: Overall under budget. *Newsletter Expenses* again not separated from *Postage & Copies* line item.

Contract Services: Overall under budget.

Repairs & Maintenance: Overall over budget \$1,906 due to *Storm Damage* and acquisition of *Gate Transmitters*.

Utilities: Overall in line with budget.

Taxes: No activity reported, **except that a penalty of \$2.84 was paid for late payment of property taxes.** Still no explanation why the BCA 2006 income tax payments made in August were so high!

Insurance: Slightly over budget.

Owners' Equity: Operating Owners' Equity stood at the end of September 2007 at \$130,213.03 as per B/S prepared by AAM.

Replacement Reserve Account at Merrill Lynch:

As of September 30, 2007 the total balance is \$519,016.04 yielding 4.76% p.a. interest vs. 4.62% p.a. in August. The balance agrees with AMA's calculation. A greater portion of the \$345,194 in the Money Fund should be placed in the Institutional Fund to benefit from the 0.65% higher interest rate which in September paid 5.4% p.a.

Forthcoming CD Maturities: None until September 2008.

Charles Schroeder

Review of BCA Financials for October 2007

Comments: According to BCA's 10/31/2007 bank statements Bellasera had cash of \$218,574 in its OPS accounts and \$566,456 in its Reserve Account for a total Cash amount of \$785,030 or 13 2/3 months worth of Bellasera's Annual Dues. **This represents a sound financial condition.** Operating Cash Balances at the Community Association Banc (a Division of First National Bank of Arizona) exceeded the limits set by FDIC (\$100,000) on 24 days and the BCA Board (\$50,000) on every day in October. Some of the overages could have been avoided had AAM transferred the \$45,285 contribution to Reserves at the beginning of the month instead of only on 10/26. The BCA Variance Reports continue to need more work to provide better information.

Income: In line with budget.

Salaries & Benefits: Under budget.

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

Contract Services: Over budget \$4,189 due to extra pay period.

Repairs & Maintenance: Overall under budget.

Utilities: Under budget.

Taxes: No activity reported, however, a schedule prepared by the accounting firm Butler & Jones shows that Estimated Taxes of \$1,500 due to IRS and \$400 to AZ Revenue Dept. should have been paid on 10/15/2007. Without information one can only assume that Income Taxes paid earlier were overpaid and excesses are now being allocated to the Estimated Taxes due. It appears that BCA has also been billed by Mark Reece, CPA, for tax preparation for the same period ending June 30, 2007 as provided by the accounting firm Butler & Jones.

Insurance: Slightly over budget.

Owners' Equity: Operating Owners' Equity stood at the end of October 2007 at \$101,712 as per B/S prepared by AAM.

Replacement Reserve Account at Merrill Lynch:

As of October 31, 2007 the total balance is \$566,456 yielding 4.67% p.a. interest vs. 4.76% p.a. in September. The balance agrees with AMA's calculation. A greater portion of the \$391,909 in the Money Fund should be placed in the Institutional Fund to benefit from the 0.64% higher interest rate which in October paid 5.3% p.a.

Forthcoming CD Maturities: None until September 2008.

Charles Schroeder

Bellasera Community Association Banking Relationship Issues

When BCA selected AAM as our new property manager about 18 months ago, we established a banking relationship with First National Bank of Arizona ("FNBA") and one of its affiliates, Community Association Bank ("CAB"). FNBA was strongly recommended by AAM apparently because of its favorable fee and service structure. FNBA and CAB are privately held banks which are, therefore, not required to issue any public accounting statements. Thanks to the diligent efforts of Charles, we have been able to gather a few shreds of information regarding FNBA and CAB and this evidence is not encouraging as to the financial health of these banks.

Also as you all know, there is currently a crisis (for lack of a better word) in the mortgage lending business with the worst loans focused in the "sub prime" lending segment of the business. Many banks and mortgage companies are reporting huge loan losses. Larger, more diversified financial institutions are much better equipped to manage this situation even though they are reporting some dramatic losses. We are fundamentally concerned that smaller financial institutions, such as FNBA and CAB with concentrated loan portfolios, are at significant risk of failing as a result of the sub prime mortgage crisis. We cannot prove this because information is very sketchy but, in our judgment, this situation represents a "clear and present" risk which we cannot ignore. Note that any funds which BCA has on deposit at FNBA / CAB are covered by FDIC insurance up to a maximum of US\$ 100,000. The key issue is that our balances at FNBA / CAB routinely run well in excess of the FDIC insurance cap!

In response to this issue, and at the urging of Charles and I, BCA established an operating funds account at Merrill Lynch ("ML") in April 2007. Instructions were given to AAM (I think verbally), that funds on deposit at FNBA were not to exceed US\$ 50,000 (well below the FDIC insurance cap) which seemed like a sufficient amount of money for day-to-day operations. Since then, AAM has consistently ignored this directive (see Charles' recent financial reviews) and, in fact, balances during each of the last seven months have routinely exceeded US\$ 100,000. This is clearly unacceptable and must be rectified. The intended concept is simple -- BCA operating funds are to be "parked" in the ML operating account until needed to pay for operating expenditures. AAM apparently does not understand this concept and / or is unwilling and / or is unable to implement it. AAM's inability to follow instructions, in our opinion, puts BCA at considerable financial risk.

A corollary issue results from the pathetically low interest rates which are paid on the balances in the FNBA / CAB accounts. Charles has the details but the rates in the ML operating account are considerably higher. As a consequence, BCA is losing potential interest income. You might be able to convince me that this lower rate of interest

compensates for bank services rendered. However, there is an old saying in the banking business -- "you can never collect enough interest income to recover a capital loss, particularly when it is your capital that is lost".

Earlier this year, we did some preliminary investigation and found that Chase Bank offers an interesting sweep business account. On initial review, it appeared that we could move our operating funds to a much more secure financial institution and gain a significantly higher return on our funds. However, when Chase actually ran some of our numbers, their various fees would consume any interest that we might gain. In fact, we might even owe them money at the end of the day. Upon further review, it appears that the culprit is the "lock box". A portion of our 360 residents (I being one of them) send in their quarterly dues in the form an old fashioned paper check. This check ends up in a lock box operated by FNBA / CAB from which these checks are collected, recorded, and deposited to BCA's bank account. From this account, money is supposed to be transferred to the reserve account (at ML), the ML operating account, and used to pay operating expenses. Apparently, this is a very costly and probably manual operation. In today's world of instant communications, on-line banking, automatic debits and credits etc, I am having trouble believing that we cannot find a better method of handling this little collection problem. However, at the moment, I just don't know the solution. Perhaps some of you might have some ideas and / or suggestions. Also, this situation begs the questions of just how many BCA residents are utilizing paper checks, how many are utilizing other means of payment, how many would like to pay with VISA etc. These are some of the questions which must be asked of AAM / FNBA /CAB. We need answers.

The banking structure currently utilized by FNBA / CAB is a very traditional one. I don't see a whole lot of creative technology utilized in this process. Also, from the perspective of FNBA / CAB, catering to community associations is an excellent source of cheap funding to fuel the bank's operations. Community associations are typically run by volunteer committees, many of which have little or no hands on banking experience, many of which don't ask a lot of questions, and many of which collect their dues on a quarterly basis resulting in a lot of idle excess idle funds. This is a great strategy for a local bank looking for a reasonably secure, consistent source of funds. However, from BCA's perspective, their gain is our loss.

Please give this matter your serious consideration. I would like to throw this topic open for discussion during our meeting. I sincerely believe that we must find a better solution. I am open to your suggestions.

Clayton Loiselle