

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

Certificates of Deposit - Maturities	Rates (%)
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