

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:

| Income | Comment |
|--------------------------------|---|
| 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. |
| Administrative Expenses | |
| 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. |

| | |
|----------------------------------|--|
| Utilities | |
| 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? |
| Repairs & Maintenance | |
| 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. |
| Contract Services | |
| 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