



**‘Conversation with Kent’ on Budget Matters  
Tuesday, January 16, 2018 - Santa Rita Springs Center**

**Budget Questions from Members  
Received between November 24 & December 15, 2017**

**Q & A**

1. Annual Dues

- A. My question is: what is the justification for the dues increase? It appears that the proposed budget has enough net income to not warrant a dues increase. Also, when was the last time that the annual dues were increased and/or is it adjusted annually?
- B. How much do you really plan to raise the dues and fees? I and many others are on a fixed income and are worried about the new finances becoming a real hardship.
- The Fiscal Affairs Committee and Board’s goal is to keep pace with inflation. This is particularly importance since Member dues accounts for only approximately 60% of the Operating Budget. Once non-dues sources of revenue are exhausted, the remainder of the budget must be covered by Member Dues. The process for setting annual GVR dues, consistent with GVR Bylaws & Corporate Policy Manual (CPM), is covered in the PowerPoint (PPT) budget overview that accompanies this ‘Q&A’ prepared for the “Conversation with Kent on Budget Matters.”

2. Because GVR bases future budgets on past budgets rather than actual expenses we have had large (million dollar) surpluses for several years. Will this budgeting procedure be rectified in the future to be based on actual expenses?

- GVR has based budget development on actual expenses for the past 4 years. Fortunately, the economy has improved and with it non-dues revenue from the turnover of GVR Member properties, which has increased gross receipts. The annual Budget Development process, consistent with GVR Bylaws & Corporate Policy Manual (CPM), is covered in the PowerPoint (PPT) budget overview that accompanies this ‘Q&A’ prepared for the “Conversation with Kent on Budget Matters.”

3. What is the turnover of GV staff at the "worker level"?

- The YTD turnover rate for 2017 is 15.81%. Most turnover is within the custodial staff and customer service reps. In the 2016 Nonprofit Employment Practices Survey, the nonprofit turnover rate was 19%. The 2016 median turnover rate for all industries was 15%.

4. What is the turnover of GV Management?
  - One supervisor and one Director.
5. Regarding the county acquiring the former Canoa Hills Golf Course: How much, if any, money will be required of GVR initially, or annually, for this? I am under the impression that the county will be responsible for most/all of the costs and GVR will only provide volunteers to perform basic tasks there. Thanks for clarifying this.
  - GVR has no plans to contribute monetarily to repurposing the former Golf Course as an open space park. County Administrator, Chuck Huckelberry told GVR members at an Open Forum in December that the County would pay GVR for any services it might provide. The initiative to repurpose the former golf course is now spearheaded by the Green Valley Council. GVR has no official role with this activity.
6. How much does the CEO position pay? Is any part of the CEO pay "at risk"? If so, what are the performance criteria? Please include defined bonuses in this at risk position.
  - Executive compensation is included on the 990 Tax Return, the 2016 return is posted on GVR's Website. Yes, all of the CEO pay and any potential bonus is 'at risk,' in that the employment agreement may be terminated by GVR. CEO Performance criteria are listed in the CPM. The CEO contract information is held by the Personnel Committee for the CEO, which includes all Board officers.
7. How much did GVR donate to the GVR Foundation in goods and services in 2017? What is the forecast for 2018?
  - The Freeport-McMoRan Foundation paid for limited part-time IT staff and some administrative support in 2017. GVR also provided office space on a part-time basis in 2017. GVRF will reimburse GVR for all non-Freeport funded expenditures by March 31, 2018. GVR did not make any financial contributions to the Foundation. The GVR Foundation Board is made up of volunteers who do the vast amount of work.
8. How do we get a more meaning budget process that has total revenue and expense variations from budget of 1-2.5% instead of the large variations in the past 4 years. Revenues are averaging 6.3% higher than budgeted. How can we budget so variations are much smaller. Since dues is a major line item and that is known in advance as to the amount per member, only variable is the # of new members. History of total growth in members should be available, and would guess that this growth may be in a 2-4% range. Non dues revenue have been higher than budget by an average of 18.5 %. Ideally this should not vary more than 2-4 %.
  - Comparing budget-versus-actual instead of budget-to-budget numbers gives a more realistic projection for future budgets. The growth in membership [# of GVR Member Properties] is presented to the Fiscal Affairs Committee on a monthly basis.
9. Are there are some payroll expenses that may be in other categories such as in programs, PR, etc.)? What can we do to slow down the growth and also report the number of FTEs per year.
  - There are no payroll expenses in any other budget lines. The number of FTEs is 91.9, with 120 total employees, of whom some are part-time.

10. When will GVR budget and report the largest expense category, personnel costs, into meaningful sub-groups. This largest item, accounts for nearly 50% of TOTAL NON DEPRECIATION COSTS and deserves more attention.
  - The GVR annual budget is detailed with a breakdown of each line item. The Fiscal Affairs Committee and the Board of Directors review each of these lines. Personnel is broken down into approximately 10 line items.
  
11. GENERAL THEORY IS THAT WE BASICALLY AIM TO BREAK EVEN IN REVENUES AND EXPENSES. PRESENT BUDGET REFLECTS \$108,000 SURPLUS THAT IS SHOWN AS INTEREST TO INVESTMENTS. This amount represents excess of funds even after adding a HUGE amount (\$491,997) for Capital Expenses. This is huge and we must have a long range program to identify affordable needs over a 3-5 year program. It is assumed that this figure represents a firm list of items and where does one find this listing? In summary, the above assumptions reflect a possible excess inflow of \$1,159,997 or about \$66 per household. How can we be more realistic in our projections and more have more affordable dues?
  - The annual Budget Development process, consistent with GVR Bylaws & Corporate Policy Manual (CPM), is covered in the PowerPoint (PPT) budget overview that accompanies this 'Q&A' prepared for the "Conversation with Kent on Budget Matters."
  
12. What will be done to reduce GVR Maintenance Expense variations? How will GVR improve in this? R and M equipment budgeted in 2107 and 2018 but expenses not found for this account. Please advise where the expenses are reported.
  - Variations are based on actual numbers. Final invoices for work completed in 2017 come in at the end of the year and tend to smooth out variances. Expenses are reported on the designated lines on the Statement of Activities.
  
13. Why is the cost of Bank, credit card and Payroll fees so high?
  - The fees are broken down into individual general ledger accounts and can be "drilled-down" to see the specific details. GVR has limited accounting staff to for manual check processing. Complaints from members for not taking credit cards or charging a fee for using credit cards were too numerous to ignore.
  
14. Who determines the kinds of financial management reports staff prepares?
  - Expectations regarding financial reporting and report formats are the purview of the Fiscal Affairs Committee. Staff often provide various financial and project-related reports for planning and project management that are for internal use only in order to execute our responsibilities.
  
15. Cash flow analysis: where is the report that tracks the actual \$'s flowing in and out of our accounts?
  - This document is part of the annual audit report.

16. Describe program area accounting, including trends for: Classes/instruction, Entertainment, Maintenance of our social centers.
- The annual Budget Development process for program budgets, consistent with GVR Bylaws & Corporate Policy Manual (CPM), is covered in the PowerPoint (PPT) budget overview that accompanies this 'Q&A' prepared for the "Conversation with Kent on Budget Matters."
17. Can you explain the \$280,000 that was allocated to buildout the facilities department at the former nursery? Shouldn't the board approve those expenditures? Should the total membership be approving this project?
- The Board approves these capital projects through the policies and procedures within the member-approved Bylaws, Board-approved CPM, and individual Board actions including approval of FY operating and capital budgets.
  - Without exception, the CEO works solely within Board of Directors policies and GVR's governing documents. The Corporate Policy Manual explicitly authorizes the CEO to "shift amounts between line items in the Board-approved budget to meet current or anticipated needs" (Appendix I, Section 1, B(4)).
  - The decision to use unexpended and unexpended funds from the repair and maintenance projects in the 2017 budget to complete the build-out of the interior of the new Facilities/Maintenance Building (the former nursery) was within that authority and was made after conferring in-person with various Committee and Subcommittee Chairpersons on September 7, 2017, including P&E, P&E Criteria, P&E West Center Campus, Fiscal Affairs, and Investment, all of whom endorsed the decision. The Board of Directors was advised of the decision in writing on September 8, 2017. Being able to move on the project with 2017 monies allows GVR to be able to fund other capital priorities in 2018.
18. What is the written procedure for approval of capital expenditures? Where is the list of capital projects, including both those completed and those yet to be completed? What are the spending cut-offs for different levels of approval?
- The list of non-reserve funded Capital Projects was provided to the Board following approval of the 2018 capital budget by the FAC and Board. As stated, non-reserve funded capital projects are identified in the annual Centers Assessments. The projected costs are furnished to the FAC as required. Determination of additional Club-related capital projects are determined by the P&E Committee. The annual Budget Development process for capital budgets, consistent with GVR Bylaws & Corporate Policy Manual (CPM), is covered in the PowerPoint (PPT) budget overview that accompanies this 'Q&A' prepared for the "Conversation with Kent on Budget Matters."
19. What is the \$411,997 listed under New Equipment/Other Major Capital Items for 2018. This line item shows only \$57,918 for 2017. Where is the nursery purchase recorded?
- This is the Capital Budget line based on annual Center Assessments. The purchase of the former nursery property is not within the 2018 budget as it was purchased in 2017.

20. What share of our budget goes to Maintenance of our social centers, and what are the trends? What can be done to optimize this area? How do the line items in the budget get reconciled with the Maintenance and Repair reserve fund?
- Approximately 65% (\$7M) goes to direct facility maintenance. This does not include any programs, classes, entertainment, clubs, marketing or administrative costs. They are tracked by the Facilities Dept. and the Reserve Study is updated each year. The Reserve fund is monitored by the Investment Committee. Need clarification on what “optimize this area” means.
21. What does the budget allocate to the new initiatives reserve? How are we going to fund the first year of our 3 yr capital plan?
- No funding is currently allocated to the Initiatives Reserve.
22. Guest card fees have gone up 20%. Why does this line item stay the same between 2017 & 2018?
- It doesn't. In 2018, Annual Guest Card fees increased \$10 to \$60, approximately 35% between 2017 and 2018.
23. Why were tenant fees left at the previous level even though our lawyer advised that we shouldn't be charging more than an administrative fee for tenants?
- Any change in fee concerning tenants requires discussion between legal counsel and full Board, not just with a committee, because it concerns AZ Nonprofit Corporation Act statutes.
24. How is the \$4.7M Wage & Benefits line item broken apart? How much of this is for maintenance/facilities, administration, executive mgmt., member support, GVRF support, etc.? What makes up the 5.9% increase over 2017?
- Approx. 65% to Facilities, 20% Member Support (recreation), 15% to Admin.
25. Why are we including “Center street directional signs” under other operating expense? Has this been approved as part of the 3 yr capital plan? Wouldn't it be a capital expense rather than operating?
- Whether or not signage is capitalized depends on if it meets our other criteria such as a minimum cost of \$5,000.
26. We are budgeting \$2.3M for New Member Capital Fees. How much of this is being set aside for capital projects? How much have we collected from members across the river (boundary expansion)? Are those funds being set aside somewhere so we can build a new social center for these folks when we hit a critical mass?
- The CPM says New Member Capital Fees will be used as will most effectively move the Corporation forward. There is no provision for setting NMCF aside in a restricted fund. Between 2015-2017 there were 28 properties among the eight new HOAs from the 2015 boundary expansion that opted in to GVR.

27. Where is the documented cost/benefit analysis for each of these new revenue sources areas? How are we tracking to our projections?
- GVR tracks each new property that joins as a member, either as an Initial Fee (for new construction or a voluntary opt in) or as a New Member Capital fee (for turnover of existing member property). The CPM states that New Member Capital Fees will be used as will most effectively move the Corporation forward. There is no provision for setting NMCF aside in a restricted fund. Between 2015-2017 there were 28 properties among the eight new HOAs from the 2015 boundary expansion that opted in to GVR.
28. Furnish a list of the Purchased fixed assets that comprise the difference in value between Jan 1 and Dec. 31 2017.
- The updated list of purchased fixed assets is part of the external annual audit and will be reported once the audit is completed.
29. Where is the recent deck replacement at Desert Hills reflected in the financial reports?
- Fixed assets are reported on the balance sheet.
30. Where in the financial reports are the expenditures for the rehab of Continental Vista center?
- Continental Vistas project would be found in Fixed Assets on the Balance Sheet. Prior to being moved to fixed assets it would be in the "Construction in Progress" account, also a balance sheet account. Project expenses are held there until the project is finished and it is moved to fixed assets and depreciated. If the activity was put in an expense account and then moved to fixed assets and depreciated, GVR would then be expensing it twice.
31. In the financial reports submitted monthly, what are the entries that comprise the lines- Maintenance and repair and Facility Maintenance?
- Major Projects-Repair & Maintenance  
Permits & Inspections  
Planning & Development  
Contract Labor  
Facility Maintenance  
Maintenance Contracts  
Repair & Maintenance – Facility  
Uniforms  
Tools - New
32. List the entries in and out of the reserve accounts of over 5000 dollars.
- Entries in and out of reserve accounts are reported to the Investment Ad Hoc Committee on an agreed-to schedule between the committee and staff. The anticipated Schedule is that GVR Facilities Department staff shall provide updates to the Browning Reserve Group and Chairpersons of the Investment Ad Hoc Committee and Fiscal Affairs Committee no later than June 30. The updates utilize results of the annual 'Center Assessment' conducted by staff during the first quarter each year (i.e., GVR Center-by-GVR Center walk-through examination) and include the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the current year and the 1<sup>st</sup> and 2<sup>nd</sup> quarters of the following year.

33. In the reserve study for 2017 the Inflated Expenditures for the year 2017 are \$656,493 and the 2016 study showed \$856,216. What are the major changes?

- Anticipated expenditures inflated @ 2.5% major changes would include some components moved forward due to inaccurate replacement dates, some components left undone as they did not require change, and some components pushed back to future dates.

Major changes in the initial Reserve Study are:

- ✓ IT Server @ AO
- ✓ Computers @ AO
- ✓ Pickleball Court Resealing at East Social Center
- ✓ Wrought iron gates @ Las Campanas
- ✓ Carpeting @ Las Campanas
- ✓ Replace/upgrade fire alarm panels @ Desert Hills and Canoa Hills
- ✓ Replace tennis court fencing @ Canoa Hills
- ✓ Replace ADA Lift Chair at Abrego South
- ✓ Shuffleboard court resurface @ Abrego South
- ✓ Painting exterior of Casa Paloma 1

Some components not addressed due to inaccurate replacement dates:

- ✓ Asphalt repairs @ AO, West Center, Las Campanas, Santa Rita Springs and Canoa Ranch
- ✓ Asphalt overlay @ Santa Rita Springs
- ✓ HVAC units @ East Social Center, Desert Hills & Santa Rita Springs
- ✓ Decking repairs and resurface @ Santa Rita Springs
- ✓ 7 – Fleet Vehicles

Some components replaced that came in under Reserve Study Budgeted numbers:

- ✓ Asphalt sealing @ AO & Santa Rita Springs
- ✓ Exercise equipment @ Santa Rita Springs, Las Campanas and Canoa Ranch

34. Where can I find the 2016 GVR Employee Salary Study and 2016 CEO Compensation Study?

- The 2016 employee salary study was commissioned from CBIZ in 2016.
- The 2016 CEO Compensation Study was commissioned by the Officers of the Board who serve as the Personnel Committee for the CEO.
- Since they are Personnel-related issues, these studies are available to the Board of Directors for review in Executive Session, per Bylaws.

35. In FY 2016, there were several internal control weaknesses identified as part of the annual financial statement audit. Why weren't these findings discussed with the Board or Fiscal Affairs Committee? Please provide details of the 2016 internal control weaknesses.

- No internal control weaknesses were cited in the independent, outside CPA audit for FY 2016. The only audit note on FY 2016 was the continued lack of a reserve study.

36. In 2017, a contract was awarded (without competition) to complete a more comprehensive internal control review to the same CPA firm who performed the 2016 financial audit. Please provide a detailed scope of the 2017 internal control review, and when completed, any findings or weaknesses identified in the 2017 audit.

- The Audit Committee operates independently from staff. Staff is aware that the Audit Committee commissioned a review of internal controls for 2017, but is not involved in the review activity, which is led by the Audit Committee co-Chairs.

37. Did the GVR Directors and the Fiscal Affairs Committee approve the following three (3) inaccurate financial reports and information that they were presented with?

a) The approval and recommendation of the FAC to apply the 2016 budget surplus of \$896,551 to the Initiatives Reserve fund, instead of to the Maintenance, Repair and Replacement fund. Fortunately, this was corrected just prior to the Board meeting.

- No. The net surplus in 2016 was allocated to the Initiatives fund as recommended by FAC.

b) There was a \$449,000 error in September financial statements related to the failure to make the appropriate transfer for the purchase of the nursery property. The error was eventually discovered, and corrected in the following month.

- There was no error. All entries in the general ledger were correct. The transfer of funds for the May 2017 purchase of the former nursery could have been made at any time during the year, as there was no mandatory date for the transfer and the project was still in process. The CFO made the transfer in October 2017

c) The financial statements presented to the FAC at the recent meeting overstated the actual amount of investment income earned on these accounts. An FAC committee member identified the discrepancy, and another FAC member discovered how it happened and is working with the CFO to fix this issue.

- This is not accurate. There was no error related to investment income. The CFO did not work with anyone to make changes.
- Audit Committee co-Chair Rich Hill examined the financial statements and investment income reports provided by Edward Jones Investments, and offered a 3-page report on the review of investment accounts and activity on January 11. The report was shared with the FA Committee, Investment Committee, Audit Committee, and Independent CPA Auditor the following:

*“Attached is a three page report on the review of the investment accounts and activity I recently concluded. As noted in the report, the system employed by GVR and Edward Jones provides adequate internal controls, reasonable monthly market value presentation and accurate entry into the General Ledger – the source of the financial statements.”*



38. Why doesn't the Board and Fiscal Affairs Committee separately approve a capital budget?
- The Bylaws and CPM requires that staff present a capital budget to the FAC, which it does as part of the Board-approved Budget Development Policy. The annual capital budget includes non-reserve funded activities, based upon the Centers Facilities Assessments.
39. During a Board and Committee work session on 12/14/17, staff reported that the East Center Pool is 'listing' on one side and that Las Campanas tennis courts are failing. Why isn't repair or replacement funding included in the Operating Budget or the Maintenance, Repair, and Replacement fund?
- Funds for scheduled repair and replacement are included in the Reserve Study for both the East Center Pool and tennis courts at Las Campanas Staff. However, as staff noted, by definition, the Repair and Replacement Reserve does not provide for 100% funding replacement in any given year due to an unscheduled catastrophic failure of a facility.
40. Why aren't all items requiring repair and replacement tracked and adequately funded?
- Most items requiring repair and replacement are tracked and adequately funded through the Reserve Study. The GVR Centers Facilities Assessment recognizes additional capital projects not reported in the Reserve Study. A detailed capital budget is prepared and reviewed by the FAC. The Facilities Dept. tracks every capital expenditure. As previously stated, there is no mechanism that recognizes and plans for an unscheduled catastrophic failure of a facility, other than perhaps the Emergency Fund Reserve.