



**Approved**  
**Board of Directors**  
**September 25, 2016**

## EXHIBIT

The Fiscal Affairs Committee (FAC) recommends the Board of Director adopt changes to Section V – Fiscal/Accounting, Subsection 2 – Reserve Policy of GVR’s Corporate Policy Manual as shown below.

Overview:

### Renumbering Cross Reference Table

Old #	Description	New #	Description
A.	Overview	A.	Overview
		B.	Reserve Study Policy
B.	Maintenance of GVR Financial Reserve System	C.	Maintenance of GVR Financial Reserve System
B.1.	Operating Reserve Fund	D.	Emergency Reserve Fund
B.2.	Capital Reserve Fund	E.	Maintenance, Repair & Replacement Reserve Fund
B.3.	Initiatives & Innovation Reserve Fund	F.	Initiatives Reserve Fund
C.	Records Retention Policy	G.	Records Retention Policy

### Reserve Fund Renaming Cross Reference Table

Old Name	New Name
Operating Reserve Fund	Emergency Reserve Fund
Capital Reserve Fund	Maintenance, Repair & Replacement Reserve Fund
Initiatives & Innovation Reserve Fund	Initiatives Reserve Fund

## SUBSECTION 2 – RESERVE POLICY

### A. Overview

Green Valley Recreation, Inc. (GVR) maintains three (3) financial reserve funds to ensure its long term solvency and sustainability as part of the Corporation's Financial Planning Principles. For each reserve fund, the following information describes the purpose, desired target range, funding source, authorization and investment parameters. In executing its oversight role, the GVR Board of Directors may elect to revise these factors over time, as needs of the Corporation evolve and as opportunities and investment markets may suggest.

### B. Reserve Study Policy

To be fiscally responsible, GVR has to answer these basic but critical questions:

- What will the cost be to maintain, repair and replace its equipment, facilities, and infrastructure to meet member expectations and high standards?
- When and to what extent will these costs be incurred?
- Will GVR have sufficient money on-hand to meet these costs?

A reserve study is a planning and budgeting tool which answers these questions by analyzing, quantifying and projecting costs of specific items called Components, in the aggregate called a Component Inventory, over a 30 year period and formulating a Reserve Contribution amount to pay these costs.

There are three (3) types of Reserve Studies:

1. Full Reserve Study – Baseline, vendor evaluates all facilities, equipment and infrastructure
2. Reserve Study with no onsite visit (NOV) – GVR updates Component Inventory with changes
3. Reserve Study with an onsite visit (WOV) – Vendor reevaluates Component Inventory & updates

During the third quarter of the current budget year GVR staff and the Fiscal Affairs Committee shall recommend and the Board shall approve a reserve study provider and the type of reserve study to be performed during the first quarter of the next budget year.

During the first quarter of each budget year, GVR shall ensure a Reserve Study is performed by a qualified, reputable Reserve Study provider with the final Reserve Study due 90 days prior to the final budget date. The Reserve Contribution amount will be incorporated into GVR's annual budget.

GVR's Percent Funded objective is not less than 85% and not greater than 100%.

The Component Inventory of a Reserve Study is the fundamental data driving Reserve Study results. To maintain Component Inventory integrity, it is imperative that GVR record all maintenance, repairs and replacements to Components as they occur or new Components are added and notify the Reserve Study provider. This is especially true when Reserve Study with no onsite visit is done.

Each Component meets these four (4) criteria:

1. GVR must have a duty to maintain, repair and replace it
2. Limited useful life
3. Predictable remaining useful life
4. Exceeds a minimum dollar threshold.

By planning, budgeting and funding GVR maintenance, repair and replacement expenses, GVR achieves these three (3) goals:

1. Sufficient cash to meet its Reserve Study Component Inventory expenses
2. Achieves a stable Reserve Contribution amount
3. Evenly distributes the cost to current and future members

### **C. Maintenance of GVR Financial Reserve System**

#### **1. Definitions:**

Defined terms are capitalized in **Bold** typeface.

**Annual Reserve Study** is the Reserve Study referred to in Section B. – Reserve Study Policy

A **Reserve Account(s)** is a checking, savings, investment or any other type of account in which reserve monies are deposited.

**Board Restricted** means the Board of Directors controls the Reserve Accounts and authorizes expenditures from such accounts.

#### **2. Reserve Contributions and the Annual Budget:**

Reserve Contributions to the Reserve Accounts shall be an integral part of the annual budget.

The annual operating budget shall generate sufficient Excess Revenue-Over-Expenses to make the Reserve Contribution to the Maintenance, Repair and Replacement Reserve Fund called for in the **Annual Reserve Study** unless such Reserve Contribution generates a Percent Funded greater than 100% in which case the Reserve Contribution may be reduced to achieve a Percent Funded not less than 85%.

Reserve Contributions to the Initiatives Reserve Fund and the Emergency Reserve Fund shall be reviewed by the Chief Financial Officer (CFO) who will recommend contribution amounts for these Reserves to the Board.

#### **3. Paying from reserve accounts or reimbursing operating cash account for reserve expenditures:**

Within sixty (60) days after adoption of this policy by the Board of Directors GVR shall establish a written accounting and internal control policy and procedure based on Generally Accepted Accounting Policies (GAAP) to track and document all withdrawals by check or electronic means and Board approved transfers, electronic or otherwise, between Reserve Funds, pay Board authorized reserve expenditures or transfers to reimburse operating cash for such expenditures. Such policy and procedure shall require written instructions and supporting documentation signed by the Chief Financial Officer (CFO) and approved by the Chief Executive Officer (CEO) or, in the CEO's absence, the Chief Operating Officer (COO).

#### **4. Priority of making contributions to Reserve Accounts:**

GVR shall make contributions to Reserve Accounts in this order of priority:

1. Maintenance, Repair and Replacement Reserve Fund
2. Initiatives Reserve Fund
3. Emergency Reserve Fund.

#### **5. Rebalancing Reserve Accounts:**

A Reserve Account(s) may have a balance greater than the Board's target minimum balance due to a number of factors including returns on investments. The Board may consider rebalancing a Reserve Account(s) by: (1) transferring money between Reserve Accounts, (2) reducing Reserve Contributions or (3) transferring money from a Reserve Account(s) to operating cash.

All rebalancing actions shall be authorized by Board resolution(s).

### **D. Emergency Reserve Fund (previously the Operating Reserve Fund)**

#### **1. Definitions:**

**Major Event(s)** is an event causing damage to a facility and/or infrastructure or an emergency safety event costing \$25,000 or more in repairs, renovations or replacements.

#### **2. Purpose:**

The Emergency Reserve Fund serves these purposes:

- An emergency fund to pay for major, unanticipated repairs to, renovation of or replacement of a GVR facility or facilities or infrastructure caused by a **Major Event** or **Events**.
- An emergency safety-net should a severe economic downturn or unanticipated event threaten GVR's financial well-being.

#### **3. Target Balance**

This fund shall be of sufficient size as determined by the Board of Directors to protect GVR from the following:

- Long-term or permanent loss of use of a GVR facility or facilities or infrastructure caused by a **Major Event** or **Events** due to GVR's inability to pay for repairs, renovations or replacement of damaged facility or facilities or infrastructure.
- Guarantee payment of the legal obligations of the Corporation for one year.

**4. Funding Source:**

At the close of each fiscal year, the Board of Directors shall determine the amount, if any, to contribute from excess Revenue-Over-Expenses plus Depreciation Expense less Reserve Contributions to the Maintenance, Repair and Replacement Reserve Fund.

Withdrawals from this reserve shall be repaid from operations as determined by the Board of Directors but not to exceed five (5) fiscal years.

**5. Authorization:**

The Chief Executive Officer (CEO) is authorized to access this fund to address critical needs as they arise with written notification within ten (10) business days to the President of the Board of Directors with a copy to the Board. Email is an acceptable form of written communication to the President.

**6. Investment Parameters:** Monies contributed to this fund shall be invested in accordance with GVR’s Investment Policy Statement. See Appendix I – Board Policies, Subsection 3 – GVR Investment Policy.

**E. Maintenance, Repair & Replacement Reserve Fund (previously the Capital Reserve Fund)**

**1. Purpose:**

This fund shall be used only to maintain, repair or replace existing equipment and facilities as listed in the Component List of the Annual Reserve Study.

If a Component is or Components are an integral part of a capital asset not part of the Component List, only the Fully Funded Balance (as defined by the Reserve Study) to maintain, repair or replace such Component or Components may be used to repair or replace a non-component list asset. For example: A pool failure requires a new pool, the Fully Funded Balance as of the fiscal year of the pool failure to resurface the pool deck, re-plaster the pool, etc. may be withdrawn from this reserve and used to cover some of the cost of the new pool.

Example:

A GVR pool needs to be replaced in fiscal year 2019. For pool resurfacing of said pool only, its Fully Funded Balance of \$8,742 for fiscal year 2019 not \$11,593 in 2021 can be used to cover some of the new pool cost.

Fully Funded Balance / Cash Flow Method															
Inflation Rate	3.00%														
Interest Rate	0.00%														
				Period →	0	1	2	3	4	5	6	7	8	9	10
Component List	Current Cost	Future Cost	Useful Life	Remaining Useful Life	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Pool - Resurface</b>	10,000	11,593	10	5	10,000	2,060	4,244	6,556	9,004	11,593	1,194	3,116	3,800	5,219	6,720
				Useful Life =	10	10	10	10	10	10	10	10	10	10	10
				Remaining Useful Life =	-5	-4	-3	-2	-1	0	-9	-8	-7	-6	-5
				Useful Life - Remaining Useful Life = Effective Age	5	6	7	8	9	10	1	2	3	4	5
				Effective Age ÷ Useful Life =	50%	60%	70%	80%	90%	100%	10%	20%	30%	40%	50%
	Current Cost =				\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$ 11,593	\$ 11,593	\$ 11,593	\$ 11,593	\$ 11,593
	Current Cost * (Effective Age ÷ Useful Life) =					\$ 6,000	\$ 7,000	\$ 8,000	\$ 9,000	\$10,000	\$ 1,159	\$ 2,319	\$ 3,478	\$ 4,637	\$ 5,796
	<b>Fully Funded Balance</b>					\$ 6,180	\$ 7,426	\$ 8,742	\$ 10,130	\$ 11,593	\$ 1,194	\$ 2,460	\$ 3,800	\$ 5,219	\$ 6,720

## **2. Target Balance:**

This reserve shall be of sufficient size as to maintain a Percent Funded (as defined in the Reserve Study) of not less than 85% and not more than 100%.

## **3. Funding Source:**

Each fiscal month, GVR shall pay 1/12 of the annual Reserve Contribution as determined by the Annual Reserve Study for the current fiscal year from operations to this reserve.

Withdrawals are repaid by future Reserve Contributions.

## **4. Authorization:**

The Chief Executive Officer (CEO) and, in the absence of the CEO, the Chief Operating Officer (COO) or Chief Financial Officer (CFO) are authorized to commit up to 110% of a Component's Fully Funded Balance for the current fiscal year in the current Annual Reserve Study. Board approval is required before committing more than 110%.

## **5. Investment Parameters:**

Monies contributed to this reserve shall be invested in accordance with GVR's Investment Policy Statement. See Appendix I – Board Policies, Subsection 3 – GVR Investment Policy.

## **6. Definitions**

### **Annual Reserve Study**

See GVR's Reserve Study Policy in Section V, Subsection 2B of GVR's Corporate Policy Manual.

Component: The individual line items in the Reserve Study, developed or updated in the Physical Analysis. These elements form the building blocks for the Reserve Study. Components typically are: (1) Association responsibility, (2) with limited Useful Life expectancies, (4) predictable Remaining Useful Life expectancies, (4) above a minimum threshold cost, (5) as required by local codes.

Financial Analysis: This portion of a Reserve Study determines the current status of the Reserves (measured as cash or Percent Funded) and recommends Reserve Contribution rate (Reserve Funding Plan) and the projected Reserve Income and expense over time is presented. The Financial Analysis is one of the two parts of a Reserve Study.

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Fully Funded Balance (FFB): An indicator against which Actual (or Projected) Reserve balance can be compared. The Reserve balance that is in direct proportion to the fraction of life “used up” of the current Repair or Replacement cost. This number is calculated for each Component then summed together for an association total. Two formulae can be utilized, depending on the provider’s sensitivity to interest and inflation effects. Note: Both yield identical results when interest and inflation are equivalent.

$$\text{FFB} = \text{Current Cost} \times \text{Effective Age} / \text{Useful Life}$$

Or

$$\text{FFB} = (\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) + \\ [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Interest Rate}) ^ \text{Remaining Useful Life}] - \\ [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Inflation Rate}) ^ \text{Remaining Useful Life}]$$

Percent Funded: The ratio, at particular point in time (typically the beginning of the Fiscal Year), of the *actual* (or projected) Reserve Balance divided by the Fully Funded Balance is expressed as a percentage.

Reserve Study: A budget and planning tool which identifies the current status of the Reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures. The Reserve Study consists of two parts: (1) the Physical Analysis and (2) the Financial Analysis.

## **F. Initiatives Reserve Fund (previously Initiatives & Innovations Reserve Fund)**

### **1. Purpose:**

The fund shall be used to support new initiatives and innovation opportunities that add value to member services and facilities and/or significantly improve GVR’s position in the marketplace.

### **2. Target Balance:**

This fund reserve shall be of sufficient size as determined by the Board of Directors to make opportunistic investments in real property, facilities and infrastructure but not less than \$500,000.

### **3. Funding Source:**

At the close of each fiscal year, the Board of Directors shall determine the amount, if any, to contribute from excess Revenue-Over-Expenses plus Depreciation Expense less Reserve Contributions to the Maintenance, Repair & Replacement Reserve Fund. In determining such amount, the Board of Directors shall first repay any withdrawals from this fund and second an amount, if any, towards its target balance of not less than \$500,000.

In any case, withdrawals from this fund shall be repaid from operations as determined by the Board of Directors but not to exceed five (5) fiscal years.

### **5. Authorization:**

The Board of Directors shall authorize any monies spent from this fund.

**6. Investment Parameters:**

Monies contributed to this fund shall be invested in accordance with GVR's Investment Policy Statement. See Appendix I – Board Policies, Subsection 3 – GVR Investment Policy.

**G. Records Retention Policy**

All records will be retained in accordance with the Arizona Non-Profit Corporations Act and the retention guidelines provide by GVR's Certified Public Accounting firm performing the annual audit.