



AGENDA

BOARD OF DIRECTORS WORK SESSION

Wednesday, August 25, 2021, 1:00pm

West Center Auditorium / Zoom

Directors: Mike Zelenak (President), Nina Campfield (Vice President), Ted Boyett (Secretary), Donna Coon (Treasurer), Mark McIntosh (Assistant Secretary), Randy Howard (Assistant Treasurer), Kathi Bachelor, Carol Crothers, Christine Gallegos, Bart Hillyer, Bev Lawless, Don Weaver, Scott Somers (non-voting)

AGENDA TOPIC

- I. Discussion: FAC Discussion of Formula & Recommendation to Transfer Funds from Operations to Initiatives Reserve



Green Valley Recreation, Inc.

BOARD OF DIRECTORS WORKSESSION and REGULAR MEETING

Prepared By: David Webster, Interim CFO

Meeting Date: August 25, 2021

Presented By: Donna Coon, FAC Chair and David Webster **Consent Agenda:** No

<p>Originating Committee/Department: FAC/Finance</p>
<p>Action Requested: Discuss and adopt formula and recommendation to transfer \$500,000 from Operations to Initiatives.</p>
<p>Goal 4: Cultivate and maintain a sound financial base that generates good value for our members</p>
<p>Background Justification: The Fiscal Affairs Committee established an Operating Cash Ad Hoc Committee to identify a proper and appropriate formula for establishing minimum cash needs in the Operations Fund, and for recommending a transfer of funds from Operations to Initiatives above and beyond minimum cash needs. This movement of funds was recommended and approved by the Operating Cash Ad Hoc Committee. It is based on the calculation of 'Average Daily Cash Required' to fund GVR operations for one year and of having 90 days of cash on hand at all times to cover unexpected revenue losses or unexpected expense increases. The ad hoc committee presented its findings and recommendations to the Fiscal Affairs Committee (FAC) on August 17, 2021. The FAC concurred with the recommendations and therefore recommends the Board of Directors adopt the recommended formula and transfers \$500,000 immediately from Operations to Initiatives based on the formula, and an approximately \$238,000 in December 2021 once the actual numbers are identified, for a total transfer from Operations to Initiatives of \$738,000.</p> <p>If the Board agrees with the intent of the recommended formula, then the Fiscal Affairs Committee (FAC) will develop the recommended policy language for the Corporate Policy Manual for future Board consideration.</p>

Fiscal Impact:

If approved, \$500,000 would be transferred from Operations to Initiatives.

Board Options:

1. Adopt the recommended formula and direct staff to transfer \$500,000 from Operations to Initiatives.
2. Send this item back to the FAC to develop a different formula and transfer of funds for the Board to consider at a future meeting.
3. Table this discussion and any decision at this time.

Staff Recommendation:

Option #1

Recommended Motion:

I move to adopt the recommended formula and the motion of the Fiscal Affairs Committee to transfer \$500,000 from Operating Cash to the Initiatives Board Designated Reserve.

Attachments:

1. Operating Cash Investment Maximization Report
2. GVR Projection of Operating Cash



GREEN VALLEY RECREATION, INC.

MEMO

TO: Scott Somers
 FROM: David Webster
 DATE: August 18, 2021
 CC: Bev Lawless – Investment Committee
 RE: Operating Cash Investment Maximization

The following discussion of maximizing our return on investments for our Operating Cash includes a detailed analysis of how GVR calculates the Average Daily Cash Requirements for the operations of the organization based on recent updates developed and approved by the Fiscal Affairs Committee.:

Budgeted Total Expenses for 2021	\$11,196,453
Less Non-Cash Depreciation	-\$ 1,810,173
Less Expenses paid by MRR	-\$ 259,034
Plus, Non-Reserve Capital Purchases	\$ 205,000
Reserve Funding from Operations:	
Maintenance Repair & Repl.	\$ 1,048,192
Maintenance Rep. & Repl. MAR	\$ 169,553
Initiatives	<u>\$ 507,317</u>
Total Cash Required to Operate GVR	\$11,057,306
Cash Transfer of MRR in January for	
One Time Funding	\$ (1,048,192)
Total Adjusted Net Cash Required	\$10,009,114
Number of Days per Year	<u>/ 365</u>
Average Daily Cash Required	\$ 27,422



Of course, on any given day, the cash requirements will vary considerably. The above method is the best practice for determining cash needs to establish benchmarks for establishing minimum cash requirements.

Please note that the preceding calculation does not include reserve investment expenses or income relating to reserve accounts. This calculation is for the cash required to operate GVR and fund the reserves only.

Furthermore, for calculating Days Cash on Hand, we reduce the operating cash available by the PACF liability amount because operating cash is required when Members submit a claim for this refund. There are always other liabilities such as trade accounts payables that exist on any given day but we do not adjust for these because they are part of normal operating activities and we typically have terms such as 30 days net. We believe that the PACF liability is a unique Member driven cash liability that we want to include and assume immediate cash availability when analyzing our operating cash available that fits within our conservative principals of providing a sound financial base for our Members.

GVR applies this Average Daily Cash needs to the industry standard minimum of 90 to 120 days cash on hand to establish a range of cash that is in the Comfort Zone for Operating Cash that can be found on item E on the attached graph. The calculation is as follows:

$$\begin{array}{lcl} 90 \text{ Days} \times \$27,422 & = & \$2,500,000 \text{ (rounded)} \\ 120 \text{ Days} \times \$27,422 & = & \$3,300,000 \text{ (rounded)} \end{array}$$

The attached Operating Cash graph is a general illustration of the typical cash cycle experienced by GVR. The peak balance of total available cash of approximately \$7,300,000 is found in January and the low point of around \$2,600,000 occurs in November.



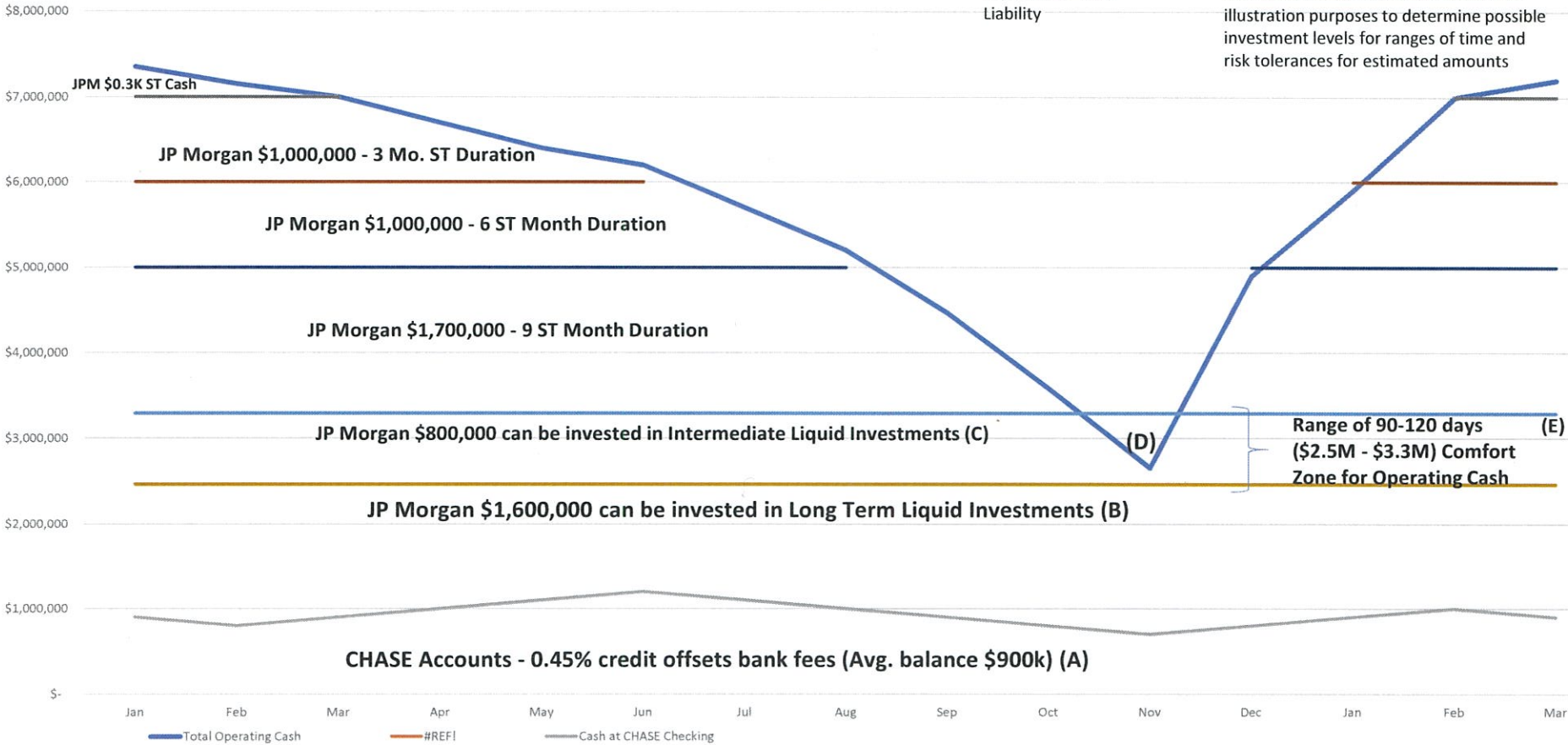
- GVR maintains an average of about \$900,000 in our CHASE Demand accounts that earn a 0.45% credit that offsets bank fees that be found on item A.
- There is approximately \$1,600,000 invested at JP Morgan that represents the amount between the average CHASE balance of \$900,000 and the minimum of 90 days of \$2,500,000 and is identified as item B. These funds can be invested with a longer term and higher risk tolerance.
- The amount between the minimum of \$2,000,000 and \$3,300,000 upper end of the Comfort Zone for minimum Cash Balances is identified as the band labeled item C. The Operating Cash balance is projected to dip well into this level and is identified as item D. This \$800,000 cash zone C has a more intermediate term and lower risk tolerance.
- The Operating Cash levels above the \$3,300,000 minimum level are identified in Short Term bands that total \$4,000,000 that will be used within 1-month, 3-month, 6-month or 9-month periods.

Again, this is a very generalized illustration that appropriately describes the Operating Cash cycle of GVR. With the Surplus Formula in place, and a Zero-Surplus Budget strategy, this cycle should theoretically be a stable repeatable general pattern. Of course, there are circumstances that will cause this pattern to vary such as significant changes in Receivables or Payables and other economic factors that impact Operating Cash. The purpose of this illustration is to help the Investment Committee determine the appropriate investment strategies for GVR's Operating Cash.

Operating Cash

Operating Cash is adjusted for PACF Liability

The cash balance amounts in this graph are rounded estimated balances and are for illustration purposes to determine possible investment levels for ranges of time and risk tolerances for estimated amounts



GVR
Projection of Operating Cash
Nov-21

Total Budget Expenses For 2021		\$ 11,196,453
Less Non-Cash Depreciation		\$ (1,810,173)
Less Expenses Paid by MRR Reserve		\$ (259,034)
Non Reserve Capital Purchases		\$ 205,000
Reserve Funding From Revenues:		
Maintenance Repair & Repl.	\$ 1,048,192	
MRR / MAR	\$ 169,553	
Initiatives	\$ 507,315	
TOTAL		\$ 1,725,060
Total Cash Required to Fund GVR For Fiscal Year		\$ 11,057,306
Cash Transfer of MRR in January for One Time		\$ (1,048,192)
Total Cash Required		\$ 10,009,114
Days Per Year		365
Daily Average Cash Required		\$ 27,422

Operating Cash Balance Projected		
November 2021	\$ 3,517,961	
Less PACF Allowance	\$ (312,340)	
Net Cash Available For Operating Funds		\$ 3,205,621
Daily Average Cash Required		\$ 27,422
Number of Days of Operating Cash Available		117
Minimum Number of Days	90	
Daily Average Cash Required	\$ 27,422	
Minimum Cash Required	\$ 2,468,001	
Projected Net Cash Available		\$ 3,205,621
Projected Operating Cash Above the Minimum	\$ 737,620	
Estimate Transfer August 2021	\$ (500,000)	
Estimated Balance to Be Transferred After Books Closed in December 2021		\$ 237,620
