

# **SECTION V – FISCAL/ACCOUNTING**

Section V was approved by the GVR Board of Directors on October 25, 2016.

## **SUBSECTION 2 - RESERVE POLICY – updated 01/29/2020**

### **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:

1. What will the cost be to maintain, repair and replace its equipment, facilities, and infrastructure to meet member expectations and high standards?
2. When and to what extent will these costs be incurred?
3. 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 shall annually make the Reserve Contribution to the Maintenance, Repair and Replacement Reserve Fund called for in the Annual Reserve Study.

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.

-- remove the following paragraph:

~~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%.~~

--- continue with the following paragraphs:

The annual operating budget shall generate sufficient Excess Revenue-Over-Expenses to make the Reserve Contribution to the Maintenance, Repair and Replacement Fund called for in the Annual Reserve Study.

Reserve Contributions to the Initiatives Reserve Fund shall be funded from a portion of the Property Acquisition Capital Fee and/or from the Initial Fee based on the applicable fee when a GVR member property is sold.

Contributions to the Emergency Reserve Fund shall be recommended by the Chief Financial Officer (CFO) to the Board for consideration and approval.

--- insert new #3 and renumber existing 3, 4, 5 to 4, 5, 6 -----

## 3. **Calculation of Operating Surplus or Deficit**

At the end of the fiscal year, the Board of Directors shall determine the amount, if any, to contribute from operational surpluses. Operating surplus or deficit is calculated as follows:

a. Begin with the Change in Net Assets from the Audited Financial Statements.

b. Deduct gain/losses on operating accounts

c. Deduct net investment income on reserve accounts/investments

d. Add depreciation expense

e. Deduct current year purchases of Capital Assets (cost basis, before accumulated depreciation)

f. Add reserve cash amounts that were used to purchase Capital Assets

g. Add expenses that were paid using reserve cash (i.e. repairs and maintenance expenses paid for using MMR funds)

h. Deduct funding cash transfers to reserve funds during the year (i.e. required MRR funding)

i. Add or deduct any other non-cash items (i.e. in-kind capital donations)

The intent of the calculation is to determine if there is a surplus of operating revenue over operating expenses each year that can be transferred to a reserve fund. The calculation is to remove non-cash items such as depreciation and unrealized gains/losses. Additionally, adjustments are to be made to take into consideration operating cash used for Capital Asset purchases. Reserve fund cash used to pay for Capital Asset purchases and operating expenses should not be included in the operating cash surplus.

--- Renumber following to 4, 5, 6.

**4. 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).

**5. Priority of making contributions to Reserve Accounts:**

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

- a. Maintenance, Repair and Replacement Reserve Fund
- b. Initiatives Reserve Fund
- c. Emergency Reserve Fund.

## **6. 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:

- a. 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**.
- b. 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:

- a. 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.
- b. Guarantee payment of the legal obligations of the Corporation for one year.

--- Remove item 4, it has been replaced by C.3. above ---

### ~~**4. Funding Source:**~~

~~At the close of each fiscal year, the Board of Directors shall~~

~~determine the amount, if any, to contribute from operational surpluses.~~

~~Operational Surplus or Deficit is calculated as follows: using the Audit Report (GAAP) as Net Changes in Net Assets without donor restrictions less unrealized gains/losses, plus Depreciation expense, less Purchases of Capital Assets before accumulated Depreciation, plus transfers from Reserves to Operation, less realized investment income relating to Reserve Accounts, and less Reserve Accounts (MRR, IR, ER) Funding during the year.~~

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

**Insert 'Withdrawals: between 5 and 6. Renumber to 4, 5, 6.**

#### **4. 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.

#### **5. Withdrawals:**

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

- 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) (updated 5/22/2019)**

#### **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.

## 2. Target Balance:

This reserve shall maintain a sufficient balance based on Annual Reserve Contributions calculated within the Annual Reserve Study.

## 3. Funding Source:

- a. Annually, GVR shall transfer the full year's annual Reserve Contribution as determined by the Annual Reserve Study for the current fiscal year from operations to this reserve within 30 days of the end of the dues collection period (normally January 31, so the full MR&R funding should be transferred by the end of February).

'b' is no longer accurate:

- ~~b. Reimbursement Policy: Quarterly (or monthly if necessary), after review by the Fiscal Affairs Committee and approval of the board, the MR&R Reserve Fund will reimburse operating cash account the full project cost of completed MR&R projects. Evidence of required reimbursement will include a brief description of the project, timeframe of projected replacement, actual project completion date, forecasted cost and actual cost. If actual cost is substantially different from forecasted cost, a detailed justification will be provided.~~

Replace 'b' with:

### b. Reimbursement Policy:

- Projects paid directly from MRR – no reimbursement necessary.

- Projects paid from the Operating Reserve –  
Quarterly (or monthly if necessary), after review by the Fiscal Affairs Committee and approval of the board, the MR&R Reserve Fund will reimburse operating cash account the full project cost of completed MR&R projects. Evidence of required reimbursement will include a brief description of the project, timeframe of projected replacement, actual project completed date, forecasted cost and actual cost. If actual cost is substantially different from forecasted cost, a detailed justification will be provided.

## 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.

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.

FFB = Current Cost X Effective Age / Useful Life

Or

FFB = (Current Cost x Effective Age / Useful Life) +  
[(Current Cost X Effective Age / Useful Life) / (1 + *Interest Rate*) ^  
Remaining Useful Life] –  
[(Current Cost X Effective Age / Useful Life) / (1 + *Inflation Rate*) ^  
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) UDATED (2/26/2019)**

### **1. Purpose:**

The fund shall be used to support new initiatives that contribute to meeting GVR Ends.

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

This fund reserve shall be of sufficient size as determined by the Board of Directors to make value added investments in real property, facilities and infrastructure.

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

Within 10 business after the end of each month GVR shall transfer the following to the Initiatives Reserve Fund based on the applicable fee (the "Initiatives Reserve Funding Formula"):

- a. Twenty percent (20%) of the Property Acquisition Capital Fee (PACF) assessed on each GVR member property sold rounded up to the next \$5.00 and
- b. Twenty-five percent (25%) of the Initial Fee assessed on each GVR member property sold rounded up to the next \$5.00. At its discretion, the Board of Directors may make an additional Initiatives Reserve contribution from the annual net surplus.

### **4. Authorization:**

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

### **4. Investment Parameters:**

Monies contributed to this fund shall be invested in accordance with GVR's Investment Policy Statement.