

SECTION V – FISCAL/ACCOUNTING

SUBSECTION 2 - RESERVE POLICY

A. Overview

Green Valley Recreation, Inc. (GVR) maintains three (3) financial reserve funds that are Board-designated 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. 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 Appendix I, Subsection 7(C). This Reserve Study is used to determine the required funding for the MRR-A reserve account.

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

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 Fund (MRR-A) called for in the Annual Reserve Study.

Contributions to the MRR-B fund shall be, if any, recommended by the CEO to the Fiscal Affairs Committee for consideration and approval then forwarded to the Board for approval.

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.

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.

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 (Part A and part B)
- 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).

**C. Maintenance, Repair & Replacement Reserve Fund (MRR-A)
(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.

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. 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.

D. Maintenance, Repair and Replacement Fund (MRR-B)

1. Purpose: The fund shall be used to fund the replacement of pools and spas.
2. Target Balance: This component of the MRR shall be of sufficient size as determined by the Board of Directors to fund replacements of GVR pools and spas. The targeted balance shall be based on GVR's staff estimate of the useful life of the pool and spas and a reasonable timetable for replacement of such items.
3. Funding Source: The Board of Directors may make contributions to MRR-B from the annual net surplus or budget a specific amount of funds of the annual budget process.

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

5. Investment Parameters: Monies contributed to MRR-B shall be invested in accordance with GVR's Investment Statement – See appendix I Board Policies, Subsection 3 – GVR Investment Policy.

E. Initiatives Reserve Fund (previously Initiatives & Innovations Reserve Fund) (updated 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.

1. **Investment Parameters:**

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

F. 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.

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.