

TO: FAC Members

FROM: GVR Finance Department

DATE : December 16, 2020

RE: Surplus Calculation

GVR Accounting Department wishes to address an issue in the CPM that we believe needs to be corrected. On January 29, 2020, the GVR Board of Directors passed a motion to change the CPM. The excerpt from the minutes is as follows: "Corporate Policy Manual Section V. Fiscal/Accounting, Subsection 2. Reserve Policy, D. Emergency Reserve Fund: document Susan Vos' recommendation for calculating Surplus/Deficit." (page 8). The prior FAC recommendation for this motion that incorporated the Vos formula states "Operational Surplus of 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."(page 10). This formula is commonly referred to as the Vos formula.

This change in Policy can be illustrated as follows

GVR SURPLUS CALCULATION		
AUDITED AMOUNTS:	OLD GVR FORMULA	NEW (Vos) FORMULA
OPERATING REVENUE	+	+
OPERATING EXPENSES	-	-
INCREASE IN OPERATING NET ASSETS PER AUDIT	=	=
DEPRECIATION	+	+
CAPITAL PURCHASES OF PROP. PLANT & EQUIPMENT	-	-
PROVISIONS FOR RESERVES	-	-
TRANSFERS FROM RESERVES TO OPERATIONS		+
RESERVE NET INVESTMENT INCOME	-	-
RECALCULATED SURPLUS	=	=

Accounting staff believes that this revised formula is flawed because it adds back transfers from a reserve account to the operating account and effectively classifies it as Income. Merely transferring from a Balance Sheet savings account to a Balance Sheet Operating cash account does not increase the surplus of cash available to transfer back out to a Reserve Account.

Fortunately, GVR is now issuing checks directly out of the Reserve Accounts so that transfers to reimburse Operating Cash is not normally necessary. However, in situations when a transfer is required, it should not be added to the Surplus calculation and therefore the surplus formula in the CPM should be corrected.

In 2020, there was a significant transfer from Initiatives to Operating Cash due to the expenditures for the Pickleball Center that were paid for out of Operating Cash. Because of this, the flaw in this Vos formula is exposed in a very material manner. Staff is very hesitant to state projections of surpluses but, because of this issue, we offer the following comparison based on current projections:

2020 GVR **PROJECTED** SURPLUS CALCULATION (projections from Dec. 15, 2020)

AUDITED AMOUNTS:	OLD FORMULA	NEW (Vos) FORMULA
OPERATING REVENUE	\$ 11,279,784	\$ 11,279,784
OPERATING EXPENSES	\$ (9,872,119)	\$ (9,872,119)
INCREASE IN OPERATING NET ASSETS PER AUDIT	\$ 1,407,665	\$ 1,407,665
LESS IN-KIND CONTRIBUTION	\$ (63,913)	\$ (63,913)
DEPRECIATION	\$ 1,671,201	\$ 1,671,201
CAPITAL PURCHASES OF PROP. PLANT & EQUIPMENT	\$ (297,622)	\$ (297,622)
PROVISIONS FOR RESERVES (MRR & INI)	\$ (1,490,216)	\$ (1,490,216)
TRANSFERS FROM RESERVES TO OPERATIONS		\$ 1,724,981
RESERVE NET INVESTMENT INCOME	\$ (880,996)	\$ (880,996)
RECALCULATED SURPLUS	\$ 346,119	\$ 2,071,100

The Vos surplus formula includes \$1,724,981 of transfers from Reserves as Income to be included in the Surplus. These 2020 transfers were as follows:

Initiatives Transfer for final Pickleball cost calculation (2019)	\$ 923,063
Emergency Transfer for East Center (2019)	\$ 15,000
Initiatives Transfer for 2020 Canoa Hills Building	\$ 506,741
Maintenance Repair & Repl. Transfer for 4 th Quarter 2019	\$ 280,177
Total 2020 Transfers from Reserve Accounts to Operational Cash	\$ 1,724,981

While the previous calculation illustrates that this formula needs to be removed from the CPM due to conceptual flaws, there is a more practical illustration of why the Vos formula is detrimental to GVR:

The Operational Cash was \$3,656,706 on November 30, 2020 which provided 111 days of Operating Cash and is above our 90-day minimum benchmark (page 11). Also, the next year's 2021 Budget that was approved by the GVR Board is a Zero-Base budget.

This 2021 Budget provides Income, Expenses, Reserve Funding, and Capital Purchases so that there is a net zero effect on the Operating Cash Balance over the course of a year. Of course, the future will not work out exactly as we budgeted but if next year works out reasonably close to as planned, theoretically, the November 2021 Operating Cash balance should be reasonably close to where it is in 2020. However, if GVR follows the Vos formula, we could be transferring an additional \$1,724,981 out of Operating Cash into the Initiatives Reserve resulting in the following:

Operating Cash Balance, November 2020 (page 9)	\$ 3,656,706 (111 days cash)
Projected Cash Surplus/Deficit based on 2021 Budget	\$ 0
Less Surplus transfer out of Operations per Vos Formula	<u>\$(1,724,981)</u>
Projected Hypothetical Operating Cash Balance, November 2021	\$1,931,725 (59 days cash)

The fact that the Vos formula will leave the Operating Cash with less than our minimum of 90 days is concerning but the more important issue is that the formula is just conceptually wrong. Just like a transfer from a savings account to a checking account of any individual or business, a transfer from GVR Reserves to Operating Cash is not income to GVR and should not be included in the Surplus calculation.

A few facts that should be considered:

- Again, the above amounts are projections that are used for illustration only. We anticipate that the final totals will be materially different than those used for this memo. Regardless of the amounts, the surplus calculation methodology is well illustrated and needs to be revised to not include transfers to Operational Cash.
- The CPM states that "...the Board of Directors shall determine the amount, **if any** to contribute from excess..." Although Board does have discretion, the Surplus formula should be corrected.
- Any surplus transfer approval will be done after the Audit is complete by the next board in the Spring of 2021 or later. However, this problem should be addressed now.
- Contrary to statements by prior board members, GVR staff has consistently opposed the Vos formula and warned of these problems. When the prior Board was intent on passing this change to the CPM after staff's strong objections, staff committed to do its best to "make it work". If staff supported this formula, why was it identified during the May, 2020 current FAC work session training presentation on slide #15 and recognized as an issue that we need to address?
- The Vos report is included (pages 12 – 14) and doesn't specifically describe the formula or the adding of Transfers to Operating Cash that was incorporated by the 2019-20 Board of Directors into the CPM. The Vos formula that was approved is a prior Board's interpretation based on workpapers from Ms. Vos that staff believes is flawed and continues to oppose.

- Capital Purchases deducted in the above example include Non-Reserve Capital Purchases only which use Operating Funds rather than Reserves.
- In Kind Donations received for the Pickleball Center have been deducted from Income in the above example. Although not expressly identified in the CPM, it is reasonable to expect that non-cash Donor contributions should not be included in determining the Surplus that is available to be transferred to Reserves.
- A very simplified illustration of the transfer process is as follows:
 - All cash assets are originally funded from Operations and, accordingly, all funding of Reserves comes from Operations Cash accounts and Reserves Investment Revenue.

For the Pickleball example, which is \$923,063 of \$1,724,981 in transfers for 2020:

Initiatives Funding (and all Reserves) originally comes from Operations Cash:

Initiatives Reserve Cash	+\$923,063 (a)
Operating Cash	-\$923,063 (b)
-Original funding of Initiatives Reserve in current and prior years.	

Pickleball Project cost paid for out of Operations Cash:

Pickleball Complex Fixed Asset	+\$923,063
Operating Cash	-\$923,063 (c)
-Pickleball Complex bills paid out of Operations account (currently, these types of bills are paid directly from Initiatives cash account and this type of transfer is no longer required).	

Board Approved Transfer from Initiatives for Pickleball Project:

Operating Cash	+\$923,063 (d)
Initiatives Reserve Cash	-\$923,063 (e)
-Reimburse Operations for Initiatives related Pickleball project costs.	

Initiatives Reserve Cash Account Recap:

Original Initiatives Funding	+\$923,063 (a)
Transfer to Operations Cash	-\$923,063 (e)
Net change to Initiatives Reserve	\$ 0
-Initiatives Cash was ultimately used to pay for Pickleball project	

Operations Cash Account Recap:

Initiatives Funding	-\$923,063 (b)
Pickleball Complex Expenditures	-\$923,063 (c)
Transfer from Init. for Pickleball	+\$923,063 (d)
Net Change to Operations	-\$923,063
-All Assets are ultimately funded from Operations	

Based on this illustration, why would GVR transfer another \$923,063 out of Operations based on a Surplus formula? GVR gained a fixed asset and the Initiatives Reserve was reduced to pay for it. Allowing the transfer from Initiatives Reserves to Operating Cash to increase a Surplus calculation would be a mistake.

On December 15, 2020 FAC received from a Board Member yet another interpretation for calculation of the Surplus available for transferring into Reserves. To avoid confusion, we will call this new interpretation Version 3. This calculation is attached on page 15. The following is GVR staff's summarization this method:

	<u>VERSION 3</u>
Total Net Assets	\$30,960,417 (November 2020 Balances used rather than Projected Dec-20)
Less Total Book Value of Fixed Assets	<u>(\$17,896,032)</u>
Net "Financial Assets"	\$13,064,385
Less Total Reserves Account Balance	<u>(\$ 9,847,478)</u>
Total "Operations Financial Assets"	\$3,216,907
Add Back Unrealized Gains	<u>\$ 167,546</u>
Net "Operations Financial Assets"	\$3,384,453
Beginning of Year Net "Financial Assets"	<u>(\$1,196,570)</u>
Operations Surplus Version 3	\$2,187,883 (see page 15)

This Version 3 method is a Statement of Financial Position (Balance Sheet) approach that has many flaws. The above "Net Operations Financial Assets" amount includes Accounts Receivable, Prepaid Expenses, Unamortized Deferred Compensation, Accounts Payables, Deferred Dues & Fees, Deferred Programs, and Compensation Liability amounts from the Statement of Financial Position. Effectively, the change in "Operations Financial Assets" is used in Version 3 to determine what Surplus is available to transfer to Reserves rather than the Operational activities of the current year. Focusing on the balance of Balance Sheet accounts is not the best method to determine the cash amount available from Operational activities of the current year to transfer to a Reserve.

In the previous analysis, we listed \$1,724,981 of transfers from Reserve Accounts to Operational Cash accounts in fiscal year 2020 (page 2). Of these transfers, \$1,218,240 were transfers to Operating Cash to reimburse Operations Cash for prior year activities that were paid for out of Operations. These transfers should be a reduction of "Operations Financial Assets" in 2020 that related to prior years and should be deducted in the Version 3 calculation. Also, this version 3 method begins with Net Assets and deducts the book value of Fixed Assets to determine an Operations Surplus. Also, the requirement of Operating Cash to purchase Non-Reserve Capital Assets is not included in this Version 3 method. As of November 2020, there were \$254,487 of Non-Reserve Capital Fixed Assets that were purchased in 2020. These capital purchases should be deducted. With these adjustments, the calculation is as follows:

	<u>VERSION 3 CORRECTIONS</u>
Nov. Operations Surplus, Ver. 3	\$2,187,883 (page 15)
Less Transfers to Operations for Prior Year Purchases	(\$1,218,240) (page 2)
Operating Cash Unrealized Gains (2020)	(\$ 167,546)
Beginning of Year Operations Unrealized Gains	\$ 7,179
Less Operations Cash used for Non-Reserve Capital Purchases	<u>(\$ 254,487)</u>
Revised "Operations Surplus"	\$ 554,789
Compare to GVR staff November Surplus Calculation	<u>(\$ 553,669)</u> (page 17 of Dec, 2020 FAC Report)
Difference Between Methods after corrections	\$ 1,120

The above unlocated difference of \$1,120 is likely due to an accrual due the inclusion of Statement of Financial Position accounts such as Accounts Payable and Accounts Receivable used in the Version 3 approach. It is not in staff's best interest to expend more time reconciling between the GVR recommended method and Version 3 to itemize this \$1,120 difference. This Version 3 method is not an acceptable method for determining Surplus primarily because it includes transfers from Reserves in the current year to Operating Cash for prior year transactions and considers these transfers as "Operating Income" for the current year. This flawed concept was discussed on the first page of this memo with the statement "Merely transferring from a Balance Sheet savings account to a Balance Sheet Operating cash account does not increase the surplus of cash available to transfer back out to a Reserve Account".

Again, please keep in mind that some of the preceding analysis was based on projections and that the final calculations can change significantly. The intent of this memo is to correct a flawed formula for the CPM that was introduced previously and to avoid the introduction of another method that is not correct. Thank you for your consideration.



A regular meeting of the GREEN VALLEY RECREATION, INC. BOARD OF DIRECTORS held Wednesday, January 29, 2020 at West Center, the President being in the chair and the Secretary being present.

Directors Present: Charles Sieck (President), Sandra Thornton (Secretary), Carol Crothers (Treasurer), Donna Coon (Assistant Secretary), Tom Sadowski (Assistant Treasurer), Suzan Curtin, Christine Gallegos, Gail Vanderhoof, Don Weaver, Mike Zelenak, Kent Blumenthal (non-voting)

Directors Absent: Lynne Chalmers (Vice President), Denise Nichols

Staff: Cheryl Moose (CFO), Jen Morningstar (Director of Administrative Services), David Jund (Facilities Director), Kris Zubicki (Recreation Services Director), David Webster (Accounting Supervisor), Miles Waterbury (Communications Specialist), Payton Snider (System Administrator), Conal Ward (IT Technician), Karen Miars (Administrative Assistant), Marie Wilbur (Office Assistant)

Visitors: 87 (includes additional staff)

1. Call to Order / Establish Quorum

President Sieck called the meeting to order at 2:01pm MST.
Roll call by Secretary Thornton; Quorum established.

2. Adopt Agenda

MOTION: Crothers / Seconded. Adopt Agenda as amended, no report to be given on B.M.D. 3.1 – Governing Style, and President Sieck to report in Director Chalmers’ absence.
Passed: unanimous

3. Consent Calendar

A. Minutes: Board of Directors September 25, 2019 Meeting

MOTION: Crothers / Seconded. Approve September 25, 2019 Meeting Minutes as presented.
Passed: unanimous

B. Minutes: Board of Directors December 11, 2019 Meeting

MOTION: Vanderhoof / Seconded. Approve December 11, 2019 Meeting Minutes as presented.
Passed: unanimous

C. November Financial Report

MOTION: Crothers / Seconded. Approve November 2019 Financial Statements as presented.
Passed: unanimous

4. Policy Governance

A. Ownership Linkage: Jan. 30 Membership Forum – President Sieck gave the update.

B. Monitoring

1. B.M.D. 4.1 - Unity of Control

MOTION: Sieck / Seconded. GVR Board of Directors accept the monitoring report on B.M.D 4.1 - Unity of Control from the Policy Governance Manual. [see Exhibit]

Passed: 8 yes / 1 no (Weaver) / 1 abstain (Gallegos)

2. B.M.D. 4.2 - Accountability of the CEO

MOTION: Sieck / Seconded. GVR Board of Directors accept the evaluation for B.M.D. 4.2 - Accountability of the CEO from the Policy Governance Manual. [see Exhibit]

Passed: unanimous

C. Policy Decisions

1. CPM issue relative to campaigning

MOTION: Sadowski / Seconded. GVR Board of Directors approve the Legal Opinion relative to the Corporate Policy Manual issue on campaigning be released to the membership as soon as possible.

Passed: unanimous

MOTION: Coon / Seconded. GVR Board of Directors recommend to the Nominations & Elections Committee (N&E) to schedule additional member candidate forums. N&E will determine the schedule.

Passed: unanimous

MOTION: Sadowski / Seconded. GVR Board directed GVR CEO to cancel all meetings currently scheduled in GVR meeting rooms for GVR political purposes not under the auspices of the Nominations & Elections Committee, until such time as the Corporate Policy Manual (CPM) is changed.

Passed: 6 yes / 3 no (Gallegos, Weaver, Zelenak) / 1 abstain (Coon)

2. CPM update on surplus/deficit calculation

3. CPM update on timing of transfers

MOTION: Crothers / Seconded. GVR Board of Directors adopt two changes to the Corporate Policy Manual (CPM):

- **Section V. Fiscal/Accounting, Subsection 2. Reserve Policy, D. Emergency Reserve Fund: document Susan Vos' recommendation for calculating Surplus/Deficit; and**
- **Section V. Fiscal/Accounting, Subsection 2. Reserve Policy, F. Initiatives Reserve Fund: transfer previously defined Initiatives Funding from Property Acquisition Capital Fees**



Motion to adopt CPM changes recommended by the FAC:

The FAC recommends two changes to the section of the CPM that deals with our Reserve Policy. The first is to document the Susan Vos recommendation for calculating Surplus/Deficit and the second is to transfer the previously defined Initiatives Funding from Property Acquisition Capital Fees (PACF) and Initial Fees within 10 business days after the end of the month rather than quarterly.

I move that the board adopt the following CPM changes:

SUBSECTION 2 - RESERVE POLICY - updated 10/25/2016

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

C. Maintenance of GVR Financial Reserve System

1. Definitions:

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

4. 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.

5. Rebalancing Reserve Accounts

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

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.

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 (PACE) 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.

GVR Cash Requirements Report

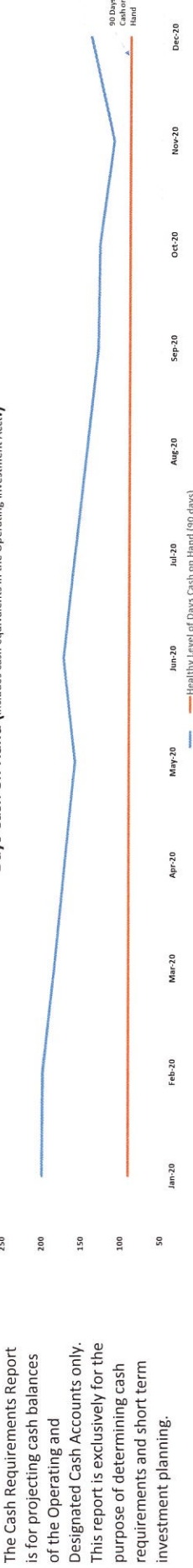
FY 2020

ACTUAL / PROJECTED	FY 2020												Projected Jan-21
	Actual Jan-20	Actual Feb-20	Actual Mar-20	Actual Apr-20	Actual May-20	Actual Jun-20	Actual Jul-20	Actual Aug-20	Actual Sep-20	Actual Oct-20	Actual Nov-20	Projected Dec-20	
Operating Cash in Bank Acct.													
Beginning of Month Balance	2,505,270	1,433,469	1,466,511	1,260,453	860,189	450,596	1,431,043	999,801	803,448	881,517	805,171	552,250	1,270,332
Transfer In	115,000	-	-	-	-	1,323,063	-	200,000	500,000	-	313,352	800,000	-
Cash Receipts	2,335,923	654,006	561,782	252,858	330,899	359,220	288,912	381,453	277,663	349,981	308,067	(1,000,000)	(1,548,192)
Cash Disbursements	(1,907,724)	(735,964)	(767,840)	(653,122)	(740,492)	(701,836)	(720,154)	(777,806)	(699,594)	(426,327)	(874,340)	1,424,956	2,897,603
Net Operating Cash Flow	428,199	(81,958)	(206,058)	(400,264)	(409,593)	(342,616)	(431,242)	(396,353)	(421,931)	(76,346)	(566,273)	(506,874)	(1,699,066)
Ending of Month Balance	1,433,469	1,466,511	1,260,453	860,189	450,596	1,431,043	999,801	803,448	881,517	805,171	552,250	1,270,332	920,676
Operating Investment Account													
Beginning of Month Balance	3,274,640	4,780,248	4,773,980	4,594,667	4,617,426	4,626,959	4,133,452	4,137,412	3,907,413	3,408,683	3,412,887	3,104,456	3,298,330
Transfer In	1,500,000	-	-	-	-	-	-	-	-	-	492,307	1,014,434	1,548,192
Transfer Out	-	-	-	-	-	(500,000)	-	(229,990)	(500,000)	-	(805,660)	(825,477)	(1,073,669)
Earned Income on Investments	5,609	(6,268)	(179,313)	22,759	9,533	6,493	3,960	(8)	1,270	4,204	4,921	4,917	4,917
Ending of Month Balance	4,780,248	4,773,980	4,594,667	4,617,426	4,626,959	4,133,452	4,137,412	3,907,413	3,408,683	3,412,887	3,104,456	3,298,330	3,777,769
MMR Reserve													
Beginning of Month Balance	7,055,756	8,067,107	7,970,250	7,444,256	7,775,528	7,908,341	7,889,829	7,849,077	7,934,342	7,851,429	7,515,772	7,775,455	7,697,790
Transfer In MRR Funding	1,005,942	-	-	-	-	-	3,600	-	-	(286,083)	-	-	1,048,192
Transfer Out	(44,249)	(2,033)	(131,871)	(12,346)	(58,725)	(91,059)	(216,930)	(41,533)	(39,310)	-	(13,964)	(88,847)	(91,068)
Net Earned Income on Investments	49,658	(94,824)	(394,123)	343,618	191,537	72,547	172,578	126,799	(43,604)	(49,574)	273,648	11,182	11,182
Ending of Month Balance	8,067,107	7,970,250	7,444,256	7,775,528	7,908,341	7,889,829	7,849,077	7,934,342	7,851,429	7,515,772	7,775,455	7,697,790	8,666,096
Initiatives Reserve													
Beginning of Month Balance	2,500,602	2,359,696	2,260,975	2,000,354	2,049,588	2,291,495	1,387,586	1,476,015	1,516,051	1,555,260	1,566,814	1,111,333	1,126,722
Transfer In	-	-	-	-	212,573	-	74,901	29,990	51,252	32,718	57,363	25,477	25,477
Prior Year Surplus	23,153	1,279	(54,928)	52,457	29,334	14,544	13,528	13,401	(4,658)	(8,449)	19,413	4,346	4,346
Transfer Out	(164,059)	(100,000)	(205,694)	(3,223)	-	(918,453)	(3,355)	(7,385)	(7,385)	(12,715)	(532,256)	(14,434)	-
Ending of Month Balance	2,359,696	2,260,975	2,000,354	2,049,588	2,291,495	1,387,586	1,476,015	1,516,051	1,555,260	1,566,814	1,111,333	1,126,722	1,156,545
Emergency Reserve													
Beginning of Month Balance	880,329	871,808	795,381	701,051	773,053	809,392	821,553	863,105	906,544	891,401	882,247	960,688	961,879
Transfer In	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer Out	(15,000)	(15,000)	(94,330)	72,002	36,338	12,161	41,552	43,439	(15,143)	(9,154)	78,441	1,192	1,192
Net Earned Income on Investments	(8,521)	(61,427)	(61,427)	773,053	809,392	821,553	863,105	906,544	891,401	882,247	960,688	961,879	963,071
Ending of Month Balance	871,808	795,381	701,051	773,053	809,392	821,553	863,105	906,544	906,544	891,401	882,247	960,688	963,071
Total Reserve Accounts													
Total Operating Cash	11,298,611	11,026,606	10,145,662	10,598,170	11,009,227	10,098,967	10,188,196	10,356,937	10,298,090	9,964,833	9,847,476	9,786,392	10,785,712
Grand Total Cash & Investments	6,213,717	6,240,491	5,855,120	5,477,615	5,077,555	5,564,495	5,437,213	4,710,861	4,290,200	4,218,058	3,656,706	4,568,661	4,698,445
Actual Days Oper. Cash on Hand (net of PACF Allow)	17,512,329	17,267,098	16,000,782	16,075,785	16,086,782	15,663,463	15,325,410	15,067,799	14,588,290	14,182,851	13,504,182	14,355,053	15,484,158
Invested Total	199	198	184	171	158	173	159	144	130	128	111	140	144

January 1, 2020 Beg. Balance:	10,436,687
Total Reserve Accounts	5,779,910
Total Operating Cash	16,216,597
Grand Total Cash & Investments	32,433,194

Projected Ending Balance 2020	13,377,720
Total Reserve Accounts	12,951,932
Total Operating Cash	14,355,053
Grand Total Cash & Investments	31,684,705

Days Cash on Hand (includes cash equivalents in the Operating Investment Acct.)



Healthy Level of Days Cash on Hand (90 days)

The Cash Requirements Report is for projecting cash balances of the Operating and Designated Cash Accounts only. This report is exclusively for the purpose of determining cash requirements and short term investment planning.

FINAL REPORT

Budgeting & Board Reporting
Susan M. Vos, CPA/CFE
RCM CPAs, Tucson, Arizona
12-11-19

From: Susan Vos <svos@rcmllp.com>
Sent: Wednesday, December 11, 2019 8:39 AM
To: Cheryl Moose <cheryl@gvrec.org>
Cc: Kent Blumenthal <KBlumenthal@gvrec.org>; Jen Morningstar <jen@gvrec.org>; David Webster <DavidW@gvrec.org>
Subject: RE: final report

Hi Cheryl,
I had sent to Charlie, I apologize you didn't get a copy. I'm out of town and just now had access to forward to you.

Regards,

Susan M. Vos, CPA/CFE
RCM CPAs
(520) 624-8229

From: Cheryl Moose <cheryl@gvrec.org>
Sent: Tuesday, December 10, 2019 8:48 AM
To: Susan Vos <svos@rcmllp.com>
Cc: Kent Blumenthal <KBlumenthal@gvrec.org>; Jen Morningstar <jen@gvrec.org>; David Webster <DavidW@gvrec.org>
Subject: final report
Importance: High

Hi Susan,

Hope you're doing well. We're going to be meeting with the new auditor today. Could we please get an unaltered copy of your recommendations? It would help to be able to talk to her about the changes. Thanks.

Regards ,

Cheryl Moose
Chief Financial Officer

GREEN VALLEY RECREATION
Recommendations for Budgeting and Board Reporting

Budget Process:

1. Develop a budget to include a comparison of the prior year's actual amounts. If the preceding year is not yet complete, projections should be made to estimate the prior year final actuals. **This recommendation is currently being implemented.**
2. When developing the budget, goals should be determined first. For example, what are the goals for next year? Each annual budget should be part of a longer-term budget based on a strategic plan or long-range planning. A strategic plan would assist in implementing this recommendation. All stakeholders should be involved in the strategic plan development with the assistance of a consultant that specializes in helping organizations with strategic planning.
3. The budget should include a separate column for each cash category to track the inflows and outflows of each cash account. This will allow for the tracking of operating cash transferred to the reserves and for the tracking of expenditures (both capital and expense) from each reserve cash account.
 - a. Operations
 - b. Maintenance and Replacement Reserve
 - c. Initiatives Reserve
 - d. Emergency Reserve
4. Prepare the budget based on cash inflows and outflows. Green Valley Recreation ("GVR") is required to maintain its accounting records in accordance with generally accepted accounting principles ("GAAP"), as such the budget should not be prepared on a pure cash basis. Non-cash items such as depreciation and allowance for bad debt should be excluded from the budgeted line items. It is important to keep in mind that excluding the non-cash items will create a potential significant variance in the net change in net assets (net income) when comparing to the audited statement of activities.
5. The monthly budget that is provided to the Board of Directors for monitoring throughout the year should be prepared with seasonality built-in. A seasonal budget will depict more the actual fluctuations of revenue and expense, so it is easier to determine if GVR is on track to meet budgeted amounts throughout the year.
6. The Board of Directors and/or the FAC shall allow the Chief Executive Officer to present the budget to the Board of Directors for approval. The CEO's presentation of the budget should include all assumptions made. The CEO's presentation will allow board members to ask questions and determine if goals are in line with the overall goals of the organization and if assumptions are reasonable.

(continued)

Funding of Reserve Accounts:

7. Per the Corporate Policy Manual, the Maintenance and Replacement Reserve account should be funded from operations in accordance with the Reserve Study to achieve a funding level of not less than 85% but not exceed 100%. GVR has utilized a professional firm to perform reserve studies. GVR should follow recommendations of this professional firm.
8. Per the Corporate Policy Manual, the Initiatives Reserve account should be funded from the New Member Capital Fee and Initial Fee assessed. GVR should follow the Corporate Policy Manual. **This recommendation is currently being implemented.**
9. Clearly define calculation for Emergency Reserve account annual contribution. Per the Corporate Policy Manual, calculations are "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 MRR Reserve Fund." 'Revenue over expense' is not clearly defined. Define if this is solely operating revenue and expense, excluding all expenditures from reserve funds and capital expenditures from operations. A calculation should be developed and followed consistently. It should also be established if the result of this calculation is used only to fund the Emergency reserve or other reserve accounts as well.

Cash Policies:

10. A best practice for most non-profit organizations is to maintain a minimum of 90 days cash on hand up to 120 days. (Days cash on hand is the number of days that an organization can continue to pay its operating expenses, given the amount of cash available.) Cash on hand can include liquid savings or money market accounts. If a liquid savings account (Money Market or High Yield Savings) is utilized, keep 45 days of cash in the checking and the remaining kept in the savings vehicle.
11. If the recommendation in #3 above (four budgets) is not adopted, an alternative to tracking expenditures by reserve account would be to maintain a checking account for each reserve account. This would also eliminate the need to transfer cash from the reserve accounts to the operating cash account.

Financial Reporting Policies:

12. Fully implement Carver Policy Governance in which Board of Directors monitors the CEO's performance through Executive Limitations. Utilize Policy Governance Consultant to develop necessary policies. **This recommendation is currently being implemented.**
13. Simplify financial reports for the Board of Directors and Fiscal Affairs Committee. Consider reducing the amount of reporting to the Balance Sheet (Statement of Financial Position), Income Statement (Statement of Activities), Cash flow (cash needs report) integrated with Budget to Actual. Or even more simplified dashboard with Key Performance Indicators.

Month	Net Assets	Fixed Assets	Net Financial Assets	Emergency Reserve	MRR Reserve	Initiatives Reserve	Total Reserves	Total Operations	Operations Unrealized Gains	Net Operations	Operations Surplus YTD	Operations Surplus Monthly	YTD Increase in Net Assets	Monthly Increase in Net Assets
Audit	\$29,310,634	\$17,670,198	\$11,640,436	\$865,396	\$7,085,389	\$2,465,305	\$10,416,090	\$1,224,346	\$7,179	\$1,217,167				
December	\$29,310,634	\$17,670,198	\$11,640,436	\$880,329	\$7,055,756	\$2,500,602	\$10,436,687	\$1,203,749	\$7,179	\$1,196,570				
January	\$29,576,543	\$17,594,337	\$11,982,206	\$871,808	\$8,067,107	\$2,359,696	\$11,298,611	\$683,595	\$721	\$682,874	-\$513,696	-\$513,696	\$265,909	\$265,909
February	\$29,510,047	\$17,708,132	\$11,801,915	\$795,382	\$7,970,250	\$2,260,976	\$11,026,608	\$775,307	\$11,640	\$763,667	-\$432,903	\$80,793	\$199,413	-\$66,496
March	\$28,833,738	\$17,651,063	\$11,182,675	\$701,052	\$7,444,256	\$2,000,354	\$10,145,662	\$1,037,013	-\$197,069	\$1,234,082	\$37,512	\$470,415	-\$476,896	-\$676,309
April	\$29,288,471	\$17,539,785	\$11,748,686	\$773,054	\$7,775,528	\$2,049,588	\$10,598,170	\$1,150,516	-\$178,878	\$1,329,394	\$132,824	\$95,312	-\$22,163	\$454,733
May	\$29,731,647	\$17,652,939	\$12,078,708	\$809,392	\$7,908,341	\$2,291,495	\$11,009,228	\$1,069,480	-\$172,929	\$1,242,409	\$45,839	-\$86,985	\$421,013	\$443,176
June	\$29,885,485	\$17,682,028	\$12,203,457	\$821,554	\$7,889,829	\$1,387,586	\$10,098,969	\$2,104,488	-\$169,393	\$2,273,881	\$1,077,311	\$1,031,472	\$574,851	\$153,838
July	\$30,195,353	\$17,604,755	\$12,590,598	\$863,105	\$7,849,077	\$1,476,015	\$10,188,197	\$2,402,401	-\$167,716	\$2,570,117	\$1,373,547	\$296,236	\$884,719	\$309,868
August	\$30,577,886	\$17,527,035	\$13,050,851	\$906,544	\$7,934,343	\$1,516,051	\$10,356,938	\$2,693,913	-\$169,581	\$2,863,494	\$1,666,924	\$293,377	\$1,267,252	\$382,533
September	\$30,553,964	\$17,482,841	\$13,071,123	\$891,401	\$7,851,429	\$1,555,260	\$10,298,090	\$2,773,033	-\$169,750	\$2,942,783	\$1,746,213	\$79,289	\$1,243,330	-\$23,922
October	\$30,539,272	\$17,478,619	\$13,060,653	\$882,247	\$7,515,773	\$1,566,814	\$9,964,834	\$3,095,819	-\$169,531	\$3,265,350	\$2,068,780	\$322,567	\$1,228,638	-\$14,692
November	\$30,960,417	\$17,896,032	\$13,064,385	\$960,688	\$7,775,456	\$1,111,334	\$9,847,478	\$3,216,907	-\$167,546	\$3,384,453	\$2,187,883	\$119,103	\$1,649,783	\$421,145

Version

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issued by Board Member

12-15-2020