

GREEN VALLEY RECREATION

5-Year Financial Plan

2011 – 2015

2010 Planning & Fiscal Affairs Committee

Joyce Finkelstein, *Committee Chair and a current member of the Board of Directors*

Jack Ernest, *Committee Vice-Chair*

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Mike Banks, *Current member of the Board of Directors*

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Introduction

The 5-Year Financial Plan is a collaboration of senior management at GVR and the Planning & Fiscal Affairs Committee (PFAC). While GVR management creates the processes and measures upon which critical decisions are based, it is the collective input of PFAC and GVR constituency that drives the 5-Year Financial Plan.

Various internal reports, third-party assessments, and reserve studies are the main resources used to build the 5-Year Financial Plan. The GVR Strategic and Long-Range Facilities Plan is updated on an annual basis. The Reserve Study is updated periodically and bolstered with infrastructure assessments that are not included in the Reserve Study's site-visit review. Funds are set aside periodically to have a Needs Assessment done to extend beyond GVR to the greater Green Valley area, which expands our vision of the future.

Most importantly, and central to the planning process, is GVR's Mission Statement: "To provide recreational, social and leisure education opportunities that enhance the quality of our members' lives." This is the first and foremost relevant planning tool for the 5-Year Financial Plan. Serving members and guiding GVR to the best financial decisions towards that end is central to the planning process.

Looking ahead to the next five years of operations, GVR and PFAC are compelled to review the methodology and assumptions to ensure the most accurate details go into the planning of GVR's financial future. The ever-changing circumstances require diligence and discussion.

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Purpose of the Plan

The purpose of the 5-Year Financial Plan is to formulate a methodical review of the organization's future operating budgets, future funding requirements to meet those needs, and a vision of the future opportunities to sustain GVR. This Plan provides a path for discussion and decision making.

Long-term business planning is one of the most challenging tasks faced by the GVR management team and PFAC. This planning is done five years into the future in uncertain times. The main difficulty with this type of business planning is trying to forecast what will be happening in the community, employee benefits, facility management, and member demands over extended periods of time. Every effort is made to discuss trends in revenue analysis and the changing scenarios with rising operating costs and the sustainability of facilities at GVR.

The real value of long term planning is not in the plan itself, but in the process of planning, thinking ahead, and considering the potential impact of outside influences on the organization.

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Key Issues, Risks, and Assumptions

Financial issues and risks exist because GVR is surrounded by potential events that can alter the ability to raise the appropriate revenue to fund operations, as well as the funds required to manage the 14 GVR facilities, and manage the unplanned events that occur without sufficient time to plan ahead.

The key issues, risks, and assumptions that were discussed in developing the 5-Year Financial Plan are:

1. Upward trend of operational and capital costs to run the day-to-day operations and a downward trend of growth in revenue sources to fund GVR.
 - *Day-to-day operations of facilities, recreation, and administration staff* - While GVR has been diligent to maintain costs in many areas of operations, fixed and variable costs associated with utilities, contract labor, and employee benefits have been steadily increasing, adding pressure to management controls.
 - *Replacement of building infrastructure, maintenance equipment, center furnishings, sound and lighting systems, hardware and software systems, new buildings and additions* - While the Reserve Study tracks the necessary replacements for major equipment and repairs, there are many variables that result in increased requests for funds to manage the facilities. The age of many facilities is certainly a primary factor, but weather-related issues and facility usage also impact the need for additional funds on an annual basis.
 - *Emergency funds for unplanned situations* – A disaster plan is being developed to address the issues associated with a natural or human event that results in a disruption of services. In 2011, GVR management will update the Operations Manual to include various emergency scenarios with action plans to ensure business continuation.
 - *Ability to increase dues and fee-based services as needed to meet annual funding requirements* – GVR recognizes the need to keep pace with rising costs by reviewing the appropriate increases in member dues, guest cards, concerts, instructional classes, and initial fees. It is also recognized that there is a compromise between these types of increases with comparable decreases in operating costs.

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Key Issues, Risks, and Assumptions – (Continued)

- *Reductions in new development that correlates with a reduction of new members –* Since 2007, Green Valley has seen a significant change in the number of new homes and subdivision developments within GVR boundaries. Discussions will continue to determine the impact this will have on the future of GVR.
- 2. Legislative actions by the County, State and Federal Government – Recent news articles about the fees that homeowner associations, housing developers and other entities charge for new homes and re-sales has come under question. GVR's inability to charge for New Member Capital Fees (NMCF), Initial Fees, and Transfer Fees would have a significant material impact on the organization's ability to continue funding operations adequately.
- 3. Desires and needs of GVR members – GVR receives many requests for special projects that reflect the desires and needs of the membership. Whether it is a request, such as an addition to add more space that accommodates a growing club or a special therapy pool, GVR evaluates and prioritizes those requests when planning future capital budgets.

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2006 - 2010 Prior 5-Year Financial History

The table below shows the past 5-year history of GVR's income and expenses.

Revenue	2006	2007	2008	2009	2010
Dues	4,728,222	4,886,177	5,051,706	5,202,566	5,262,989
Programs/Instructional	532,221	555,348	288,991	523,850	532,075
New Member Capital Fees/Initial Fees	736,056	574,292	642,594	751,242	720,576
Other Income	481,436	531,567	759,619	653,104	367,829
Total Revenue	6,477,935	6,547,384	6,742,910	7,130,762	6,883,469
Expenses					
Wages/Benefits	2,636,479	2,743,068	2,974,954	3,261,264	3,343,573
Repair/Maintenance	187,830	187,649	197,310	428,880	324,550
Operating Supplies	204,786	266,034	284,625	265,900	341,859
Furniture/Equipment	164,462	131,428	157,712	109,219	97,805
Utilities	706,383	793,953	807,081	879,448	926,240
Other Expenses	1,716,260	1,916,787	1,944,358	1,420,383	1,328,698
Total Expenses	5,616,200	6,038,919	6,366,040	6,365,094	6,362,725
Capital Costs	1,116,524	1,067,500	261,212	302,600	472,350
Reserve Contributions	393,619	69,795	15,234	463,068	48,444
Net Excess Cash	145,466	105,986	100,425	280,584	0

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The table below shows the projected income and expenses.

Revenue	2011	2012	2013	2014	2015
Dues	5,399,193	5,440,093	5,480,993	5,521,893	5,562,793
Programs/Instructional	580,002	609,002	639,452	671,425	704,996
New Member Capital Fees/Initial Fees	888,180	898,838	909,624	920,539	931,585
Other Income	401,865	421,958	443,056	465,209	488,469
Total Revenue	7,269,240	7,369,891	7,432,225	7,492,266	7,566,143
Expenses					
Wages/Benefits	3,206,690	3,270,824	3,336,240	3,402,965	3,471,024
Repair/Maintenance	250,900	250,900	250,900	250,900	250,900
Operating Supplies	345,924	345,924	345,924	345,924	345,924
Furniture/ Equipment	199,639	199,639	199,639	199,639	199,639
Utilities	1,044,514	1,138,520	1,170,987	1,227,676	1,298,417
Other Expenses	1,428,298	1,436,419	1,436,555	1,437,011	1,437,298
Total Expenses	6,475,965	6,642,226	6,740,245	6,864,115	7,003,202
Capital Costs	793,275	720,516	838,323	1,097,389	691,595
Reserve Contributions	0	0	0	0	0
Net Cash/(Expenses)	0	74,651	(146,343)	(551,351)	(128,654)

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Expense Considerations and Funding Sources

- GVR will continue to place emphasis on energy conservation initiatives and programs. Utilities have outpaced budget projections for several years. Future rate increases and surcharges will require a judicious effort to find more ways to reduce energy costs. GVR is projecting a 3% - 9% increase in utilities in 2012 - 2015.
- Health insurance benefits are projected to increase in the double-digit range over the next three years. GVR has been diligent to find carriers in the past who have kept our rates low compared to industry standards. Through the effective use of resources, GVR will work diligently to keep staff costs down to compensate for higher benefit costs. Projections are for a 2% annual increase in benefits 2012 - 2015.
- Maintenance repairs, equipment, contracts and supplies are not projected to increase for 2012 - 2015. The facilities department has been diligent to bring more work in-house as more highly qualified and specialized staff has been hired at GVR. Utilizing strategic vendor and contract relationships will also keep operating supply costs down.
- Capital projects were based on the Reserve Study, along with a schedule of other projects required through assessments of the building infrastructure by facilities management.
- Other expenses include over \$1 million in depreciation expenses. These expenses are non-cash transactions.

Without financial self-sufficiency, GVR cannot choose its direction or concentrate on its mission as effectively. Over 85% of revenue generated for GVR operations comes from member dues. This is the primary funding source, and is a potential source for increases to balance projected financial plans. This revenue base is highly dependent on growth in the Green Valley boundaries to increase member dues.

- Member dues are projected with no increase during 2012 - 2015. Based on the 2010 trends, 100 new members per year are added in the projections to ensure a conservative approach.

The Initial Fee is collected annually for new constructed homes. It is tied to Developer Agreements, which state it may be increased by an amount not greater than the Consumer Price Index (CPI).

- Initial and New Member Capital Fees are projected to increase 1.2% in 2012 - 2015.

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Expense Considerations and Funding Sources – (Continued)

Besides funding from individual member dues, GVR has various sources of revenue to include programs and instructional classes, facility rent, and guest passes. This is an essential funding source that bridges the gap for operating requirements. Increases in these areas are reviewed on an annual basis.

- Other revenue sources are projected at a 5% increase to fund operating and capital expenses during 2012 - 2015.

GVR also has two Reserve Funds: the Operating and the Replacement Reserve. To date, the Operating Reserve does not have any restrictions or requirements imposed on it by the GVR Board of Directors. It can be used to fund emergency or unplanned operational expenses with Board approval.

The Replacement Reserve is tied directly to the Reserve Study. The original study was prepared in March, 2006, and has been updated annually. It identifies the cost of facilities and/or equipment that need to be repaired or replaced each year based on useful life, as well as the funds that should be held in the Replacement Reserve at the end of the calendar year. GVR maintains the minimum reserve balance as set forth in the Reserve Study.

Utilizing these reserves is a potential funding source, however it is noted that balances could fall below minimum requirements in the Reserve Study, and may be difficult to replace.

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Summary and Conclusions

The diligent work of the current and past GVR Management Team, Board, and Committee members has created an efficient financial review process to ensure a viable future for GVR. By looking at the past financial history and estimating the expected income and expenses for the next five (5) years, it is possible to identify the areas that may have the greatest impact on GVR's financial resources to maintain a sound financial planning process.