

## **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**

A reserve study is a planning and budgeting tool that enables GVR to plan for the maintenance, repair and replacement of its equipment, facilities and infrastructure to meet member expectations and high standards. The methodology for the Reserve Study is found in Appendix I- Board Policies, Subsection 7. GRV Reserve Policy

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. 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.

**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.

The annual operating budget shall generate sufficient Excess Revenue-Over-Expenses to make the Reserve Contribution to the Maintenance, Repair and Replacement Reserve 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 Board for consideration and 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- \*\*No change to this section\*\***

**4. Paying from reserve accounts or reimbursing operating cash account for reserve expenditures: \*\*No change to this section\*\***

**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 B)
- b. Initiatives Reserve Fund
- c. Emergency Reserve Fund.

**6. Rebalancing Reserve Accounts: \*\*No change to this section\*\***

**D. Emergency Reserve Fund (previously the Operating Reserve Fund) \*\*No change to this section\*\***

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

**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 of Reserve Study-** See Appendix I- Board Policies, Subsection 7. GRV Reserve Policy

**F. Maintenance, Repair and Replacement Fund (MRR-B)\*\*all new\*\*:**

**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.

**G. Initiatives Reserve Fund (previously Initiatives & Innovations Reserve Fund) UPDATED (2/26/2019)\*\*No changes to this section**

NOTE: This is the end of changes to SUBSECTION 2 – RESERVE POLICY

**NOTE: Information below will be moved to CPM Appendix I**

## **Appendix I: Board Policies, Subsection 7. GVR Reserve Policy**

### **I. Definition of Reserve Study**

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

## **II. Definition of Annual Reserve Study**

**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.

$$\text{FFB} = \text{Current Cost} \times \text{Effective Age} / \text{Useful Life}$$

Or

$$\begin{aligned} \text{FFB} = & (\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) + \\ & [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Interest Rate}) ^ \\ & \text{Remaining Useful Life}] - \\ & [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Inflation Rate}) ^ \\ & \text{Remaining Useful Life}] \end{aligned}$$

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.