

# RCSC BOARD POLICY RESOLUTION No. 16 (“BP 16”)

## **Budget, 5 Year Plan, PIF Forecast, & Financial Reporting**

WHEREAS Article V, Section 6.3 of the Corporate Bylaws empowers the Board of Directors (“Board” or “Directors”) of the Recreation Centers of Sun City, Inc. (“RCSC” or “Corporation”) to adopt Policies (“BP” or “Policies”) not in conflict with the Restated Articles of Incorporation (“Articles”) or the Corporate Bylaws (“Bylaws”).

WHEREAS to minimize inconsistencies, misunderstandings and misinterpretations inherent in verbal instructions, rules and regulations, the Board of Directors has established Board Policies in written form. Such Policies shall be titled, numbered and indexed for easy reference and use.

WHEREAS the Restated Articles of Incorporation and the Corporate Bylaws shall take precedence over Board Policies and that the following Board Policy on Budget & Financial Reporting shall provide instruction, direction and guidelines regarding such and shall remain in effect until such time it is amended or removed by the Board.

NOW, THEREFORE BE IT RESOLVED the Corporation shall adhere to the following policy regarding Budget & Financial Reporting:

### **SECTION 1: FISCAL YEAR**

For all purposes, financial and otherwise, the calendar year January 1 through December 31, shall be synonymous with the term “fiscal year” of the Corporation.

### **SECTION 2: BUDGET PREPARATION AND APPROVAL**

**A. Annual Budget.** Management shall prepare and present an annual, balanced operating and capital budget to the Finance, Budget and Audit Committee by its September meeting (3<sup>rd</sup> Wednesday of the month). The Finance Budget and Audit Committee will assume responsibility for community roll-out and feedback prior to the October Board meeting. The Board will adopt an Annual Budget for the coming year at its October and November Board meetings.

The Annual Budget will contain an operating budget for each division and/or department and will consist of all operating income and expense items, capital expenditures, and projected income from the Preservation and Improvement Fee (“PIF”) Fund, the Capital Improvement Fee (“CIF”) Fund, and annual Member Assessments.

**B. Five-Year Budget.** Each Year, Management shall update the Five-Year Budget and present a revised, balanced operating and capital budget for review to the Finance, Budget and Audit Committee. The Five-Year Budget will contain an operating plan for each division and/or department covering the five-year period. The Five-Year Budget for the Corporation will consist of all operating income and expense items, capital expenditures, and projected income from the PIF fees, the CIF fees, and annual Member Assessments.

**C. Capital Expenditures.** The Annual Budget and the Five-Year Budget will include a list of proposed Capital expenditures (“Capital Project List”). The Finance, Budget and Audit Committee and Management will agree on the dollar amount of Capital Expenditures for each year.

**1.** To obtain funding for a Capital Expenditure, the division, department or club requesting the expenditure must justify the requested expenditure to the Finance, Budget and Audit

- Committee. The Finance, Budget and Audit Committee will provide a form that details the required information for Capital Expenditure requests. If the Finance, Budget and Audit Committee agrees with the justification submitted, the project will be placed on the Capital Project List. The Capital Project List will contain a description of the project, the location where the project will be completed, an estimate of the project cost, and a ranking of each project's priority. Management, along with the Finance, Budget and Audit Committee, will develop a ranking methodology to assist in prioritizing the projects for the Capital Project List.
2. Project recommendations will come primarily from the Reserve Study, as well as additional requests from Buildings and Infrastructure, Operations, and Golf.
  3. Normally 5 percent of the annual Capital Project budget will be budgeted for Club project requests. However, this percentage can be modified by RCSC Board action. The Club Organization Committee will develop a methodology for ranking the Club requests and recommend a list of Club projects for inclusion in the Capital Project List.
  4. The five-year Capital Project List will include:
    - a) A beginning CIF balance for each year
    - b) An annual estimate of CIF Fee contributions (including an estimate of the number of annual house resales and a proposed CIF Fee amount) and earnings on the CIF Fee balance
    - c) An estimate of each project's cost and the year the cost is anticipated to be incurred
    - d) An estimated ending CIF Fee balance for each year
  5. Once the Annual Budget is approved by the Board, Management will have reasonable flexibility to include unbudgeted Capital Projects in the Capital Project List if the project is related to Safety or Regulatory rules, or if an essential asset unexpectedly fails. Management may need to defer one or more budgeted projects so that annual Capital Project spending remains at or below Budget. If Management makes material changes to the approved Capital Project List, Management shall notify the Finance, Budget and Audit Committee of such changes.

**D. PIF Forecast.** As part of the Budget process, the Long Range Planning Committee will propose a Ten-Year PIF Project Forecast. The Long Range Planning Committee and Management will agree on the dollar amount of PIF expenditures for each year in the Ten-Year PIF Project Forecast.

1. To obtain funding for a PIF expenditure, the division, department or club requesting the expenditure must justify the expenditure to the Long Range Planning Committee. The Ten-Year PIF Project Forecast will include:
  - a) A beginning PIF balance
  - b) An annual estimate of the PIF Fee contributions (including an estimate of the number of annual house resales and a proposed PIF Fee amount) and earnings on the PIF Fee balance
  - c) The individual PIF projects projected for each year including the project cost estimates
  - d) An estimated ending PIF balance on an annual basis. The estimated ending PIF balance should not drop below \$5 million dollars, however, this minimum balance can be modified by RCSC Board action.
2. PIF Project requests may be submitted to the Long Range Planning Committee at any point in the year by any Board Member or committee. The Long Range Planning Committee will provide a form for PIF Project requests.

- a) The Long Range Planning Committee will develop a ranking methodology to recommend which PIF Project requests are included in the 10-Year PIF Project Forecast
  - b) The Long Range Planning Committee will annually prepare a ten-year forecast of PIF expenditures for the Board. The Board will approve the Ten-Year PIF Project Forecast.
  - c) As PIF funding is required, the Long Range Planning Committee will provide the Board with a recommendation based on the screening and review process previously completed. The Board will approve or reject each request for PIF funding
3. The Board will approve the Ten-Year PIF Project Forecast at its October and November Board meetings. After approving the Ten-Year Project Forecast all new PIF project requests will be deferred to the next annual budget cycle for review unless the Board modifies the approved Ten-Year Project Forecast.
- E. CIF Fund.** A CIF Fund account will be created and initially funded with the remaining Carryforward balance, the Capital Reserve Account balance, and the balance in the Unrestricted Fund in excess of the designated \$2.5 million Operating Reserve. All CIF Fees received will be deposited into the CIF Fund every month, as will 5 percent of the Annual Member Assessment fees collected, however, the Board may modify the before mentioned percentage. All Capital Project spending will be made from this CIF Fund. A minimum balance of \$5 million dollars will be maintained in the CIF Fund, although the Board may modify this minimum balance requirement. Management and the clubs will request Finance, Budget and Audit Committee review of all requests for CIF funding. The Finance, Budget and Audit Committee will recommend to the Board CIF projects included as part of the Annual Budget.
- F. Five Year Planning Team.** The Five-Year Planning Team will be established and its membership will include no more than three members of the Finance, Budget and Audit Committee, no more than three members of the Long Range Planning Committee, one member of the Club Organization Committee and those members of management that the General Manager believes are critical to the development of the Annual Budget, the Five-Year Budget and the Ten-Year PIF Project Forecast. While members of the RCSC Board may consult with the Five-Year Planning Team, RCSC Board members have neither supervisory duties nor budget preparation responsibilities. The purpose of the Five-Year Planning Team is to ensure that the Finance, Budget and Audit Committee, the Long Range Planning Committee and the Club Organization Committee complete their budget and PIF preparation responsibilities in an accurate and timely manner.

A Reserve Study is a planning tool intended to assist in identifying major maintenance, repairs, replacements and major capital expenditures of the Corporation. The Reserve Study will be updated annually by Management. The Finance and Budget Committee and the 5 Year Planning Team will review any proposed Reserve Study and make recommendations to the Board accordingly. It is expected that the results of a Reserve Study will be incorporated into the RCSC's Annual Budget and Five-Year Budget.

### **SECTION 3: FINANCIAL REPORTING**

On or before the 25th of each month (excluding year-end), summary financial statements shall be distributed to the Board, Finance Budget and Audit Committee and Management. A Monthly PIF project work-in-process status will also be distributed to the Board, Long Range Planning Committee and Management. Financial statements shall compare actual monthly and year-to-date results with the budget and prior year's results. Management will review monthly variances from the budget and report concerns to the Board.

**SECTION 4: FINANCIAL REVIEW**

Management shall provide a year-to-date in depth review after March 31 and September 30 of financial operations and capital expenditures to both the Board and Finance Budget and Audit Committee. Neither a year-end nor a June 30 in depth financial review will be provided unless otherwise requested.

**SECTION 5: ACCOUNTING STANDARDS**

All financial records and accounts of the Corporation shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB).

**SECTION 6: INTERNAL FINANCIAL CONTROLS**

Management is responsible for establishing specific internal control policies and procedures to include, but not limited to, authorization, segregation of duties, safeguarding, recording and depositing, reconciliation and review. Every RCSC employee is responsible for ensuring that established internal controls are followed and applied.

**SECTION 7: ANNUAL FINANCIAL AUDIT**

A financial audit will be conducted every year. The Board and the Finance, Budget and Audit Committee will review and approve Management’s recommended audit firm. The Board and the Finance, Budget and Audit Committee will meet annually with the audit partner, without Management present, to review findings and make relevant inquiries of the audit firm. An audit report will be completed by the outside audit firm, and submitted to the Board and the Finance, Budget and Audit Committee at the conclusion of every annual financial audit.

**SECTION 8: REFUNDS**

Except as stated specifically in the Corporate Documents there are no other refunds of assessments, fees or other charges by RCSC.

BE IT FURTHER RESOLVED that a copy of this resolution shall be posted on the RCSC website for members and shall be made available to members upon request at no cost.

Adopted and signed this 26<sup>th</sup> day of September, 2024 at a duly called Board meeting by a majority (5) of the Recreation Centers of Sun City, Inc. Board of Directors.

ATTEST:

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Kat Fimmel, President

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Connie Jo Richtmyre, Secretary