

**GREEN VALLEY RECREATION, INC.**  
**Green Valley, Arizona**

**Financial Statements**  
**December 31, 2014 and 2013**

**Green Valley Recreation, Inc.  
December 31, 2014 and 2013**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Green Valley Recreation, Inc.  
Green Valley, Arizona

**Report on the Financial Statements**

I have audited the accompanying financial statements of Green Valley Recreation, Inc. (GVR), an Arizona nonprofit corporation, which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.


**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GVR as of December 31, 2014 and 2013 and the results of its operations and its

cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matter**

GVR has not obtained an updated independent study of the remaining useful lives and future replacement costs of its common interest facilities since May 2009 and did not make planning or funding decisions based on it. Instead, in 2012 GVR purchased software to aid its management in internally developing such a study. During 2013 GVR management did develop a long range planning study and the Board has utilized it as a tool in making annual budgetary decisions, however to date such plan or study has not been formally accepted and adopted by the Board of Directors. Therefore, GVR has not presented a study of estimated remaining lives and future replacement costs that the American Institute of Certified Public Accountants determined is required to supplement, although not required to be a part of, the basic financial statements.

  
Tucson, Arizona  
February 18, 2015

**GREEN VALLEY RECREATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2014 and 2013**

<b>ASSETS</b>		
<b>CURRENT ASSETS</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Cash and cash equivalents	\$ 4,922,766	\$ 3,043,690
Dues assessments receivable, net of allowance for bad debts of \$98,000 and \$74,000 as of December 31, 2014 and 2013, respectively	80,481	82,331
Prepaid expenses	118,300	110,872
Certificates of deposit	5,231,108	4,729,858
Interest receivable	4,150	3,146
<b>Total Current Assets</b>	<b><u>10,356,805</u></b>	<b><u>7,969,897</u></b>
 <b>LONG-TERM ASSETS</b>		
Property and equipment	16,991,479	17,628,077
Total long-term assets	<u>16,991,479</u>	<u>17,628,077</u>
<b>Total Assets</b>	<b><u>\$ 27,348,284</u></b>	<b><u>\$ 25,597,974</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 121,959	\$ 79,018
Accrued expenses	119,989	242,655
Deferred revenue	<u>4,431,573</u>	<u>3,412,750</u>
<b>Total Current Liabilities</b>	4,673,521	3,734,423
 <b>NET ASSETS</b>		
Unrestricted net assets	18,674,763	19,372,184
Unrestricted net assets-board designated reserves	<u>4,000,000</u>	<u>2,491,367</u>
<b>Total Net Assets</b>	<b><u>22,674,763</u></b>	<b><u>21,863,551</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 27,348,284</u></b>	<b><u>\$ 25,597,974</u></b>

The accompanying notes are an integral part of these financial statements.

**GREEN VALLEY RECREATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended December 31, 2014 and 2013**

**CHANGES IN UNRESTRICTED NET ASSETS**

<b>Revenues:</b>	<u><b>2014</b></u>	<u><b>2013</b></u>
Membership dues	\$ 5,878,641	\$ 5,603,377
Fees	1,860,055	1,577,828
Programs	313,177	298,642
Instructional	364,075	360,610
Investment	12,186	18,931
Room rentals	20,975	18,263
Other	70,473	77,441
<b>Total Unrestricted Revenues</b>	<u><b>8,519,582</b></u>	<u><b>7,955,092</b></u>
Net Assets Released From Restrictions		
Restrictions Satisfied by Payment		2,500
<b>Total Unrestricted Revenues and Reclassifications</b>	<u><b>8,519,582</b></u>	<u><b>7,957,592</b></u>

**Expenses:**

Communications	102,865	103,518
Contract services	561,760	606,499
Depreciation	1,293,276	1,298,001
Employee/volunteer expenses	82,288	104,515
Fees, taxes, and permits	122,423	124,159
Food	30,180	35,675
Insurance	190,204	209,058
Miscellaneous	66,600	103,594
Payroll taxes and benefits	641,151	626,473
Planning and development	9,011	45,103
Postage and printing	78,396	113,549
Professional services	56,938	96,755
Repairs and maintenance	542,488	421,034
Salaries and wages	2,764,422	2,864,842
Small equipment and furnishings	55,721	61,778
Supplies	235,464	269,154
Utilities and waste management	875,183	862,315
<b>Total Expenses</b>	<u><b>7,708,370</b></u>	<u><b>7,946,022</b></u>

<b>Increase in Unrestricted Net Assets</b>	811,212	11,570
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**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions		2,500
Net Assets Released From Restrictions		(2,500)
<b>Change in Temporarily Restricted Net Assets</b>	<u>-</u>	<u>-</u>

<b>Increase in Total Net Assets</b>	811,212	11,570
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<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>21,863,551</u>	<u>21,851,981</u>
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<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 22,674,763</u></u>	<u><u>\$ 21,863,551</u></u>
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The accompanying notes are an integral part of these financial statements.

**GREEN VALLEY RECREATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2014 and 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Increase in net assets	\$ 811,212	\$ 11,570
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:		
Depreciation	1,293,276	1,298,001
Allowance for doubtful accounts	24,000	24,000
Changes in operating assets and liabilities:		
(Increase) decrease in dues assessments receivables	(22,150)	(12,747)
(Increase) decrease in interest receivables	(1,004)	66
(Increase) decrease in prepaid expenses	(7,428)	6,207
(Decrease) increase in accounts payable	42,941	(11,680)
(Decrease) increase in accrued expenses	(122,666)	31,305
Increase (decrease) in deferred revenue	1,018,823	(501,818)
<b>Net Cash Provided By (Used for) Operating Activities</b>	<b><u>3,037,004</u></b>	<b><u>844,904</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(656,678)	(1,076,790)
Purchases of certificates of deposit	(5,231,108)	(4,729,858)
Proceeds from sales of certificates of deposit	4,729,858	5,178,077
<b>Net Cash (Used For) Provided By Investing Activities</b>	<b><u>(1,157,928)</u></b>	<b><u>(628,571)</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,879,076</b>	<b>216,333</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b><u>3,043,690</u></b>	<b><u>2,827,357</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 4,922,766</u></b>	<b><u>\$ 3,043,690</u></b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 1 – NATURE OF ACTIVITIES**

*Nature of Activities*

Green Valley Recreation, Inc. (GVR) was incorporated as a nonprofit corporation in 1979 under the laws of Arizona. GVR was the successor corporation to the Green Valley Community Club incorporated in 1972. GVR's purpose is to promote the common good and general welfare of its members through the operation and maintenance of recreational and social facilities (currently there are 14 such facilities) and the sponsorship of cultural and civic activities for its members within the unincorporated community of Green Valley, Arizona. Regular membership in GVR is required by all property owners within certain geographic boundaries as defined by GVR's bylaws. Members' properties are encumbered by deed restrictions requiring perpetual membership and payment of annual dues and assessments, including a capital investment fee upon each property's transfer. There were 13,385 and 13,331 member properties as of December 31, 2014 and 2013, respectively.

GVR's recreational facilities were built by area developers who donated them to GVR upon their completion with GVR assuming all responsibility for operation, maintenance and upkeep thereafter.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

GVR prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities, which includes preparing the financial statements on the accrual basis of accounting, whereby revenues are recorded as earned rather than when received and expenses are recorded as incurred rather than when paid. The significant accounting and reporting policies used by GVR are described subsequently to enhance the usefulness and understandability of the financial statements.

Estimates The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, GVR's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. GVR's management believes that the estimates and assumptions are reasonable in the circumstances however, the actual results could differ from those estimates.

Cash and Cash Equivalents For purposes of the statement of cash flows, GVR considers all liquid investments available for use with an initial maturity of three months or less to be cash equivalents.

Membership Income, Receivables, and Deferred Revenues Annual membership dues were \$440 and \$421 in 2014 and 2013, respectively. It is GVR's policy to bill its members for annual dues in advance of the January 1<sup>st</sup> due date, and recognize the income ratably over the following twelve months. New member capital fees and transfer fees are fully recognized as income at the time of a property sale.

GVR's receivables are substantially from its members, secured by lien as necessary against the members' properties. Receivables are considered as past due more than 30 days from the billing date. Non-member receivables are on an uncollateralized basis. An allowance for doubtful accounts is



**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Membership Income, Receivables, and Deferred Revenues (Continued)

recorded based upon management's estimates of ultimate collectability. In some cases properties are sold in foreclosures or as short sales for less than the amount of the recorded first lien holder's position, resulting in a potential loss of uncollected dues to GVR.

The deferred revenues on the accompanying Statement of Financial Position are a result of collections of dues from its members in advance of the January 1<sup>st</sup> due date and recognize its membership revenue over the next year's twelve months and from the collections of various program and instructional revenues in advance of the program event or the class.

Certificates of Deposit Investments in certificates of deposit are carried at purchased cost, as it is the intent of GVR to hold them to maturity.

Property and Equipment Purchased property and equipment are recorded at cost and donated assets are recorded at their fair market value at the date of the donation. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Estimated useful lives range from five to ten years on furniture and equipment, five to ten years on vehicles, and ten to forty years on buildings and improvements. The cost of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts and any resulting gain or loss is included in operations. Expenditures for maintenance and repairs are charged against operations as incurred. Renewals and betterments that materially extend the life of an asset are capitalized. Generally, purchases under \$5,000 are expensed.

Net Assets Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of GVR, the environment in which it operates, the purposes specified in its corporate documents and its tax-exempt status, and any limits resulting from agreements with donors and others entered into in the course of its operations. However, GVR's Board has internally designated certain otherwise unrestricted net assets for operating reserve, capital replacement, and initiatives and innovation reserves.

Temporarily Restricted Net Assets

Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. As of December 31, 2014 and 2013, respectively, there were no such assets held.

Permanently Restricted Net Assets

Permanently restricted net assets include contributed net assets that require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for program operations. GVR had no such assets as of December 31, 2014 and 2013.

**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting For Gifts- In-Kind Contributions GVR periodically receives contributions in a form other than cash or investments. If GVR receives a contribution such as property or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of the gift, provided that the value of the asset and its estimated useful life meets GVR's capitalization policy. Donated supplies are recorded as contributions at the date of the gift and as expenses when the donated items are placed into service or distributed.

GVR benefits from personal services provided by a number of volunteers that have donated significant amounts of time and services in GVR's program operations. However, the majority of the contributed services do not meet the criteria for recognition in the financial statements. GAAP allows recognition of contributed services only if the donated services create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. There were no such services recorded during the periods ended December 31, 2014 and 2013, respectively.

Advertising Advertising costs are expensed as incurred.

Income Taxes – GVR is exempt from federal and state income taxes as to their exempt function activities under Internal Revenue Code Section 501(c)(4) and not classified as a private foundation. GVR's management believes that all of the various tax positions that have been taken would be sustained under an audit by any taxing jurisdiction. The statute of limitations for being subject to audits is generally four years.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2014:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,599,235	\$ 5,765,511
Buildings and improvements	12,429,122	7,827,289	20,256,411
Tennis, shuffleboard and sports courts	324,958	1,285,656	1,610,614
Pools, spas and equipment	412,588	1,407,272	1,819,860
Recreational equipment	230,841	632,244	863,085
Vehicles		283,876	283,876
Furniture and equipment	<u>30,000</u>	<u>1,441,646</u>	<u>1,471,646</u>
	17,593,785	14,477,218	32,071,003
Less accumulated depreciation	<u>(8,050,173)</u>	<u>(7,029,351)</u>	<u>(15,079,524)</u>
	<u>\$ 9,543,612</u>	<u>\$ 7,447,867</u>	<u>\$ 16,991,479</u>

**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 3 – PROPERTY AND EQUIPMENT (Continued)**

Property and equipment consisted of the following at December 31, 2013:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,599,235	\$ 5,765,511
Buildings and improvements	12,429,122	7,571,750	20,000,872
Tennis, shuffleboard and sports courts	324,958	1,268,748	1,593,706
Pools, spas and equipment	412,588	1,218,512	1,631,100
Recreational equipment	230,841	607,137	837,978
Vehicles		283,876	283,876
Furniture and equipment	<u>30,000</u>	<u>1,271,282</u>	<u>1,301,282</u>
	17,593,785	13,820,540	31,414,325
Less accumulated depreciation	<u>(7,612,584)</u>	<u>(6,173,664)</u>	<u>(13,786,248)</u>
	<u>\$ 9,981,201</u>	<u>\$ 7,646,876</u>	<u>\$ 17,628,077</u>

Depreciation expense was \$1,293,276 and \$1,298,001 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 4 – CONCENTRATIONS OF MARKET AND CREDIT RISK**

Cash balances of \$2,827,816 and \$147,818 at a financial institution were federally uninsured as of December 31, 2014 and 2013, respectively. The uninsured balances resulted from large dues collections at the end of the years and the excess balances were reinvested early in 2015 and 2014. GVR has market risk for its receivables as they mostly relate to residents and others all located in the Southern Arizona area.

**NOTE 5 – DEFERRED REVENUE**

Deferred revenue consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Dues received in advance	\$ 4,194,281	\$ 3,213,218
Other- future events and classes	<u>237,292</u>	<u>199,532</u>
	<u>\$ 4,431,573</u>	<u>\$ 3,412,750</u>

**NOTE 6 – UNRESTRICTED NET ASSETS- BOARD DESIGNATED RESERVES**

Board designated unrestricted net assets consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Operating reserve	\$ 539,366	\$ 539,366
Initiatives and innovation reserves	1,508,633	
Building reserve	<u>1,952,001</u>	<u>1,952,001</u>
	<u>\$ 4,000,000</u>	<u>\$ 2,491,367</u>

**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 7 – LEASE COMMITMENTS**

GVR has entered into several office equipment operating lease agreements that currently require minimum monthly lease payments of \$2,140 plus monthly copying charges and have the following minimum lease payments required for each of the years ended December 31 as follows:

2015	\$ 29,519
2016	29,519
2017	32,557
2018	12,477
2019	<u>10,777</u>
	<u>\$ 114,849</u>

Total equipment lease expense was \$48,615 and \$45,974 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 8- RETIREMENT PLAN**

All GVR employees that have attained at least the age of 20.5 and 1,000 annual working hours are eligible to participate in GVR's 401(k) retirement plan. Employees may contribute an amount up to the annual IRS limits. GVR matches the percentage the employee contributes per pay period up to 5% of compensation. Retirement plan contributions made by GVR were \$65,955 and \$70,056 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 9- RELATED PARTY ACTIVITIES**

Many of GVR's members also belong to special interest clubs that utilize meeting space in the recreational facility buildings at no charge. GVR also provides these clubs with minor administrative support services at no charge. Also, several of GVR's employees are GVR members.

**NOTE 10- FUNCTIONAL EXPENSE ALLOCATION**

Expenses as summarized by category in the accompanying Statements of Activities are classified by major functional activity as follows for the years ended December 31, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
Program services	\$5,242,793	\$5,313,566
Management and general	<u>2,465,577</u>	<u>2,632,456</u>
	<u>\$ 7,708,370</u>	<u>\$ 7,946,022</u>

All depreciation expense has been recorded as a management and general expense since a specific allocation has not been determined.

**Green Valley Recreation, Inc.**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**NOTE 11- LITIGATION**

Previously two GVR members filed a lawsuit alleging that GVR bylaw amendments had not been adopted by the appropriate number of members in accordance with the Arizona Nonprofit Corporation Act (ANCA) for the then prior eleven years. In 2012 the plaintiffs certified the case as a class-action to encompass all GVR members, past and present, who had paid the new member capital fee since 2000. Legal counsel was provided by GVR's insurance carrier regarding this matter and the case was defended vigorously. In November 2013 the case was dismissed with prejudice by stipulation of the parties, without any financial ramifications to GVR other than attorney fees.

**NOTE 12- FUTURE MAJOR REPAIRS AND REPLACEMENTS**

GVR's governing documents require funds to be accumulated for future major repairs and replacements. The capital replacement reserves aggregated \$1,952,001 as of both December 31, 2014 and 2013.

GVR is to fund such major repairs and replacements over the estimated useful lives of the components based on estimates of current replacement costs and the consideration of amounts previously accumulated. A reserve study by an outside consulting company was obtained in 2009 to determine this information. The company's May 1, 2009 conclusion was that an optimal fully funded reserve balance would be \$5,663,605 at that time, subsequently increased to \$6,554,540 and \$6,361,692 as of December 31, 2014 and 2013, respectively, of which GVR has funded \$1,952,001 or 30.5% and 30.7% as of December 31, 2014 and 2013, respectively. This funding percentage is considered as borderline fair and the company recommended that GVR make an annual reserve contribution of \$900,000 each year to adequately fund anticipated major repair and replacements as they become scheduled, followed by annual increases to help offset inflation and strengthen reserves. GVR has not followed these recommendations and has not been specifically funding the reserves. However, in 2015 GVR has budgeted \$50,000 monthly in capital reserves funding. In 2012 GVR purchased an integrated capital project planning and funding software program to significantly enhance and improve these processes internally with the intention to rely on its internally generated data to make funding and planning decisions. A long term capital improvement plan has been drafted and utilized by the Board in making annual budget decisions, however to date it has not been formally accepted or adopted by the Board.

Actual expenditures may vary from the estimated amounts and variations may be material. Therefore, amounts accumulated in the future major repairs and replacement fund may not be adequate to meet future needs. If additional funds are needed, GVR has the right to levy increased regular assessments, special assessments, or to delay major repairs and replacements until funds are available.

**NOTE 14 – SUBSEQUENT EVENTS REVIEW**

Subsequent events were evaluated through February 18, 2015, the date the report was made available for management review. Events occurring after that date have not been evaluated to determine whether a change to the financial statements would be required.

These notes are an integral part of the financial statements.