

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION
Green Valley, Arizona**

**Combined Financial Statements
December 31, 2017 and 2016**

**Green Valley Recreation, Inc. and
GVR Foundation
December 31, 2017 and 2016**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements and Internal Control

I have audited the accompanying combined financial statements of Green Valley Recreation, Inc. (GVR) and GVR Foundation, Arizona nonprofit corporations, which comprise the combined statements of financial position as of December 31, 2017 and 2016 and the related combined statements of activities, changes in net assets and cash flows for the years then ended, as well as the combined statement of functional expenses for the year ended December 31, 2017, and the related notes to the combined financial statements. I also have audited GVR's internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and presentation of these combined 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. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting.

Auditor's Responsibility

My responsibility is to express an opinion on the combined financial statements and an opinion on GVR's internal control over financial reporting based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves 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. An audit of financial statements 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.

An audit of internal control over financial reporting involves performing procedures to obtain evidence whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting bases on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect, and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In my opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of GVR and GVR Foundation as of December 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in my opinion, GVR maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Report on Supplementary Information on Reserve Study

Generally accepted accounting principles in the United States of America for common interest realty associations require that the Supplemental Information about future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not a required

part of the basic financial statements of the Association, is required by the American Institute of Certified Public Accountants who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide assurance on the Supplemental Information because the limited procedures do not provide me with sufficient information to express an opinion or provide any assurance.

Information regarding the reserve study is reported in Note 13 to the financial statements as well as page 18 Supplementary Information.



Tucson, Arizona
March 5, 2018



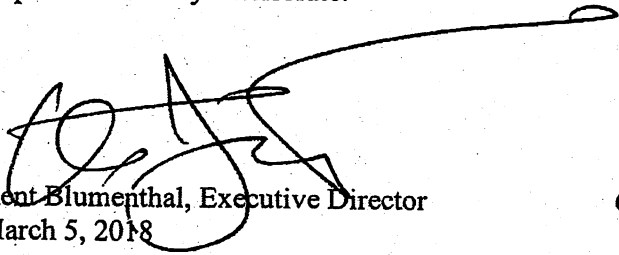
GREEN VALLEY RECREATION, INC.

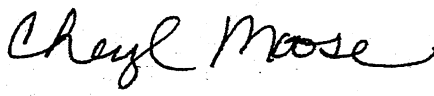
Management's Report on Internal Control Over Financial Reporting

Green Valley Recreation, Inc. (GVR)'s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management of GVR is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of GVR's internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, management concluded that, as of December 31, 2017, GVR's internal control over financial reporting is effective, based on the criteria discussed above.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect, and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.


Kent Blumenthal, Executive Director
March 5, 2018


Cheryl Moose, Chief Financial Officer

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF FINANCIAL POSITION
December 31, 2017

ASSETS	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
Cash and cash equivalents	\$ 4,539,157	\$ 153,535	\$ 4,692,692
Dues assessments and miscellaneous receivables, net of allowance for bad debts of \$152,000	123,604		123,604
Investments	10,274,921	25,000	10,299,921
Prepaid expenses	173,447	5,652	179,099
Property and equipment, net of accumulated depreciation	<u>16,686,927</u>		<u>16,686,927</u>
Total Assets	<u>\$ 31,798,056</u>	<u>\$ 184,187</u>	<u>\$ 31,982,243</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 409,179	\$ 1,336	\$ 410,515
Inter-entity payable (receivable)	743	(743)	
Deferred dues and fees revenue	4,230,453		4,230,453
Deferred programs revenue	<u>329,352</u>	<u>5,850</u>	<u>335,202</u>
Total Liabilities	<u>4,969,727</u>	<u>6,443</u>	<u>4,976,170</u>
NET ASSETS			
Net assets without donor restrictions	18,102,165	96,423	18,198,588
Donor restricted net assets		81,321	81,321
Board designated net assets-Reserves for emergency operation	930,342		930,342
Board designated net assets-Reserves for capital replacements	6,264,272		6,264,272
Board designated net assets-Reserves for initiatives	<u>1,531,550</u>		<u>1,531,550</u>
Total Net Assets	<u>26,828,329</u>	<u>177,744</u>	<u>27,006,073</u>
Total Liabilities and Net Assets	<u>\$ 31,798,056</u>	<u>\$ 184,187</u>	<u>\$ 31,982,243</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF FINANCIAL POSITION
December 31, 2016

ASSETS			
	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CURRENT ASSETS			
Cash and cash equivalents-Unrestricted	\$ 3,391,664	\$ 110,229	\$ 3,501,893
Dues assessments and miscellaneous receivables, net of allowance for bad debts of \$128,000	106,944		106,944
Inter-entity receivable (payable)	(5,345)	5,345	
Prepaid expenses	155,699		155,699
Investments	8,155,208		8,155,208
Total Current Assets	<u>11,804,170</u>	<u>115,574</u>	<u>11,919,744</u>
LONG-TERM ASSETS			
Property and equipment, net of accumulated depreciation	16,348,308		16,348,308
Total long-term assets	<u>16,348,308</u>		<u>16,348,308</u>
Total Assets	<u>\$ 28,152,478</u>	<u>\$ 115,574</u>	<u>\$ 28,268,052</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 298,985		\$ 298,985
Deferred revenue	2,818,640		2,818,640
Deferred revenue	287,826	\$ 4,200	292,026
Total Current Liabilities	<u>3,405,451</u>	<u>4,200</u>	<u>3,409,651</u>
NET ASSETS (restated)			
Unrestricted net assets	17,015,025	50,949	17,065,974
Temporarily restricted net assets		60,425	60,425
Board designated net assets-Reserves for emergency operation	814,203		814,203
Board designated net assets-Reserves for capital replacements	4,984,427		4,984,427
Board designated net assets-Reserves for initiatives	1,933,302		1,933,302
Total Net Assets	<u>24,746,957</u>	<u>111,374</u>	<u>24,858,331</u>
Total Liabilities and Net Assets	<u>\$ 28,152,408</u>	<u>\$ 115,574</u>	<u>\$ 28,267,982</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

	<u>Green Valley Recreation, Inc.</u>	<u>GVR Foundation</u>	<u>Combined Totals</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS			
Operating revenues, gains and other support:			
Membership dues	\$ 6,627,415		\$ 6,627,415
New member capital/initial fees	2,439,129		2,439,129
Life care, transfer, tenant, additional card and other fees	777,581		777,581
Recreation income	747,359	\$ 38,927	786,286
Communications	115,683	16,130	131,813
Investment income/realized capital gains	271,889		271,889
Donations		29,363	29,363
Other income and special events	36,533	9,970	46,503
Total operating revenues, gains and other support without donor restrictions before releases from restrictions	<u>11,015,589</u>	<u>94,390</u>	<u>11,109,979</u>
Net assets released from donor restrictions			
Satisfaction of program restrictions		42,604	42,604
Total operating revenues, gains and other support without donor restrictions	11,015,589	136,994	11,152,583
Operating expenses			
Facilities and equipment	2,975,872		2,975,872
Personnel	4,510,407		4,510,407
Programs	787,485	46,374	833,859
Communications	151,451	27,432	178,883
Operations	403,210	2,143	405,353
Corporate expenses	477,801	15,571	493,372
Total operating expenses	<u>9,306,226</u>	<u>91,520</u>	<u>9,397,746</u>
Increases in operating net assets without donor restrictions	1,709,363	45,474	1,754,837
Other changes:			
Net unrealized market value change of investments	372,009		372,009
Total increases in net assets without donor restrictions	<u>2,081,372</u>	<u>45,474</u>	<u>2,126,846</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS			
Donations and grants		63,500	63,500
Net assets with donor restrictions released to without donor restrictions		(42,604)	(42,604)
Increase in net assets with donor restrictions		<u>20,896</u>	<u>20,896</u>
Increase in total net assets	2,081,372	66,370	2,147,742
NET ASSETS, BEGINNING OF YEAR	<u>24,746,957</u>	<u>111,374</u>	<u>24,858,331</u>
NET ASSETS, END OF YEAR	<u>\$ 26,828,329</u>	<u>\$ 177,744</u>	<u>\$ 27,006,073</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2016

CHANGES IN UNRESTRICTED NET ASSETS	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
Operating revenues, gains and other support:			
Membership dues	\$ 6,402,286		\$ 6,402,286
New capital fees	2,007,135		2,007,135
Other fees	634,073		634,073
Programs	361,053	\$ 20,683	381,736
Instructional	388,904		388,904
Investment interest, dividends and net realized capital gains	158,166		158,166
Rooms and cell tower rentals	84,150		84,150
Donations, net		15,943	15,943
Other	50,171	2,724	52,895
Total unrestricted operating revenues, gains and other support	10,085,938	39,350	10,125,288
Communications and technology	119,990		119,990
Contract services	721,166	1,728	722,894
Depreciation	1,293,504		1,293,504
Fees, taxes, and permits	75,749	1,131	76,880
Food	36,950	575	37,525
Insurance	184,153	500	184,653
Miscellaneous	38,829		38,829
Personnel/volunteer costs	4,258,859		4,258,859
Postage and printing	76,103	1,293	77,396
Professional services	293,731	33	293,764
Repairs and maintenance	610,367		610,367
Small equipment and furnishings	138,873		138,873
Supplies	256,288	71	256,359
Utilities and waste management	840,023		840,023
Total Operating Expenses	8,944,585	5,331	8,949,916
Net changes in Unrestricted Net Assets From Operations	1,141,353	34,019	1,175,372
Other Changes:			
Unrealized losses in fair market value of investments	(118,802)		(118,802)
Net changes in Unrestricted Net Assets	1,022,551	34,019	1,056,570
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Donations and grants, net		43,925	43,925
Programs		16,500	16,500
Net changes in Temporarily Restricted Net Assets		60,425	60,425
Net changes in Net Assets	1,022,551	94,444	1,116,995
NET ASSETS, BEGINNING OF YEAR	23,724,406	16,930	23,741,336
NET ASSETS, END OF YEAR	\$ 24,746,957	\$ 111,374	\$ 24,858,331

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2017

	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 2,081,372	\$ 66,370	\$ 2,147,742
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:			
Depreciation	1,262,126		1,262,126
Allowance for doubtful accounts	24,000		24,000
Unrealized gains in fair market value of investments	(372,009)		(372,009)
Changes in operating assets and liabilities:			
(Increase) in dues assessments and miscellaneous receiva	(40,660)		(40,660)
Decrease (increase) in inter-entity receivables (payables)	(4,602)	4,602	
(Increase) in prepaid expenses	(17,748)	(5,652)	(23,400)
Increase in accounts payable and accrued expenses	110,194	1,336	111,530
Increase in deferred dues and fees revenue	1,411,813		1,411,813
Increase in deferred programs revenue	41,456	1,650	43,106
Net Cash Provided By Operating Activities	<u>4,495,942</u>	<u>68,306</u>	<u>4,564,248</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,600,745)		(1,600,745)
Proceeds from sales of investments			-
Purchases of investments	(1,747,704)	(25,000)	(1,772,704)
Net Cash (Used For) Investing Activities	<u>(3,348,449)</u>	<u>(25,000)</u>	<u>(3,373,449)</u>
Net Increase in Cash and Cash Equivalents	1,147,493	43,306	1,190,799
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>3,391,664</u>	<u>110,229</u>	<u>3,501,893</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,539,157</u>	<u>\$ 153,535</u>	<u>\$ 4,692,692</u>
SUPPLEMENTAL DISCLOSURES			
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2016

	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets:	\$ 1,022,551	\$ 94,444	\$ 1,116,995
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:			
Depreciation	1,293,504		1,293,504
Allowance for doubtful accounts	24,000		24,000
Unrealized losses in fair market value of investments	118,802		118,802
Changes in operating assets and liabilities:			-
(Increase) in dues assessments and miscellaneous receiva	(81,484)		(81,484)
Decrease (increase) in inter-entity receivables (payables)	22,845	(22,845)	-
(Increase) in prepaid expenses	(3,583)		(3,583)
(Decrease) in accounts payable	(1,215)		(1,215)
Increase in accrued expenses	26,410		26,410
Increase (decrease) in deferred revenue	(1,667,593)	4,200	(1,663,393)
Net Cash Provided By Operating Activities	<u>754,237</u>	<u>75,799</u>	<u>830,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,381,288)		(1,381,288)
Proceeds from sales of certificates of deposit	3,982,808		3,982,808
Purchases of investments	(8,269,475)		(8,269,475)
Net Cash (Used For) Provided By Investing Activities	<u>(5,667,955)</u>		<u>(5,667,955)</u>
Net Increase in Cash and Cash Equivalents	(4,913,718)	75,799	(4,837,919)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>8,305,382</u>	<u>34,430</u>	<u>8,339,812</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,391,664</u>	<u>\$ 110,229</u>	<u>\$ 3,501,893</u>
SUPPLEMENTAL DISCLOSURES			
Interest paid	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Facilities and equipment				
Major projects-repair and maintenar \$	356,288	\$	\$	\$ 356,288
Facility maintenance	221,543	705	14	222,262
Fees and assessments	12,631	4,894	100	17,625
Utilities	862,144	24,010	490	886,644
Depreciation	1,072,807	185,534	3,786	1,262,126
Furniture and equipment	140,658	29,292	598	170,548
Vehicles operations	52,497	7,778	159	60,434
Personnel				
Wages, benefits, payroll taxes	3,582,737	880,480	17,969	4,481,186
Conferences and training	23,910	5,205	106	29,221
Programs				
Recreation contracts and other	695,477			695,477
Bank and credit card fees	51,269	38,794	792	90,855
Food and catering	46,746	5,407	110	52,263
Communications				
Communications	93,440	12,100	247	105,787
Printing	51,109	11,244	2,270	64,623
Advertising	2,393	3,115	64	5,572
Operations				
Supplies	256,117	36,362	742	293,221
Postage	10,083	6,553	1,154	17,790
Dues and subscriptions	4,524	5,152	105	9,781
Travel and entertainment	15,747	4,533	93	20,373
Other operating expenses	60,688	3,430	70	64,188
Corporate				
Information technology	20,163	2,010	41	22,214
Professional fees	102,046	53,085	1,083	156,214
Commercial insurance	-	221,865	1,467	223,332
Taxes	-	18,697	382	19,079
Bad debts	-	69,230	1,413	70,643
TOTAL FUNCTIONAL EXPENSES	<u>\$ 7,735,017</u>	<u>\$ 1,629,475</u>	<u>\$ 33,255</u>	<u>\$ 9,397,746</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	<u>Totals</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Reserves for Emergencies</u>	<u>Reserves for Capital Replacements</u>	<u>Reserves for Initiatives</u>
NET ASSETS, December 31, 2015	\$23,741,336	\$16,253,836		\$789,366	\$4,628,289	\$2,069,845
Net increase in net assets-GVR	1,022,551	1,022,551				
Net increase in net assets-GVR Foundation	94,444	34,019	\$60,425			
Transfers between unrestricted and reserves:						
Reserve study allocation		(900,000)			900,000	
Repairs and replacements transfers		525,600			(439,600)	(86,000)
Allocations of net change components:						
Investment income		(87,787)		17,772	48,577	21,438
Investment expenses		17,239		(17,239)		
Unrealized changes in fair market values		200,517		24,304	(152,839)	(71,981)
NET ASSETS, December 31, 2016 (Restated)	24,858,331	17,065,974	60,425	814,203	4,984,427	1,933,302
Net increase in net assets-GVR	2,081,372	2,081,372				
Net increase in net assets-GVR Foundation	66,370	45,474	\$20,896			
Transfers between without restrictions and reserves:						
Reserve study allocation		(914,400)			914,400	
Repairs and replacements transfers		500,000				(500,000)
Other transfers		(34,764)				34,764
Allocations of net change components:						
Investment income		(180,348)		24,153	115,572	40,623
Investment expenses		10,484		(6,045)	(4,439)	
Unrealized changes in fair market values		(375,204)		98,031	254,312	22,861
NET ASSETS, December 31, 2017	\$27,006,073	\$18,198,588	\$81,321	\$930,342	\$6,264,272	\$1,531,550

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

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

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 13,549 and 13,504 member properties as of December 31, 2017 and 2016, 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.

In 2014 GVR formed a 501c(3) entity, GVR Foundation, to enhance donation opportunities and support GVR's member assistance program (MAP) whereby eligible financially struggling members can potentially have their annual assessments paid for them. In 2016 the GVR Foundation commenced the administration of GVR's Senior Games.

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.

Presentation of Combined Financial Statements Primary functions of the GVR Foundation is to raise funds to fund the MAP program and to conduct the Senior Games on GVR's behalf. The GVR Foundation currently relies on GVR economically for many of its otherwise incurred overhead costs. As a result, it has been determined that the GVR Foundation is an entity considered to be under common control in accordance with generally accepted accounting principles promulgated by U.S. GAAP for not-for-profit entities. Accordingly, the financial statements are presented on a combined basis with inter-entity balances eliminated in combination.

Recent New Major Pronouncements and Implementation In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities", which require potentially significant changes in the presentation of the financial statements and related footnote disclosures in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent New Major Pronouncements and Implementation (Continued)

of cash flows, investment return, and release of restrictions on capital assets. The guidance is required to be effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. GVR and GVR Foundation have elected to early adopt this standard and accordingly the accompanying financial statements reflect the implementation, including the addition of a combining statement of functional expenses for 2017.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The amendments are required to be adopted for GVR and GVR Foundation's fiscal years beginning after December 15, 2018. Early adoption is permitted. Transition to the new guidance may be done using either a full or modified retrospective method. GVR and GVR Foundation are currently evaluating the full effect that the adoption of this standard will have on the financial statements but does not anticipate the adoption will have any material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (topic 842), requiring lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and to disclose key information about lease agreements. The guidance is effective for companies' fiscal years beginning after December 15, 2019 and early adoption is permitted. GVR and GVR Foundation are currently evaluating the impact of the pronouncement and anticipates the adoption will not have a material impact on 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.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership Income, Receivables, and Deferred Revenues Annual membership dues were \$485 and \$475 in 2017 and 2016, respectively. It is GVR's policy to bill its members for annual dues in advance of the January 1st 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 or transfer.

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 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 Combined Statement of Financial Position are a result of collections of dues from its members in advance of the January 1st due date and recognizing 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.

Investments Investments are carried at the lower of cost or market value, as provided by the brokerage firm based on market quotations.

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 Effective for 2017 net assets are classified into one of two classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions and Board Designated Net Assets

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of GVR and GVR Foundation, the environment in which they operate, the purposes specified in their corporate documents and their tax-exempt status, and any limits resulting from agreements with donors and others entered into in the course of their operations. GVR's Board has internally designated certain otherwise unrestricted net assets for emergency operating, capital replacement, and initiatives and innovation reserves.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Restricted Net Assets

Donor restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met. As of December 31, 2017 and 2016, respectively, there were no such assets held by GVR, however in 2016 the GVR Foundation commenced receiving such donations.

Accounting For Gifts-In-Kind Contributions GVR and GVR Foundation periodically receive contributions in a form other than cash or investments. If they receive 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 their 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 and GVR Foundation 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, 2017 and 2016, respectively.

Advertising Advertising costs are expensed as incurred.

Income Taxes – GVR and GVR Foundation are exempt from federal and state income taxes as to their exempt function activities under Internal Revenue Code Section 501(c)(4) and 501(c)(3), respectively, and are not classified as private foundations. Their 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 – CONCENTRATIONS OF MARKET AND CREDIT RISK

Cash balances of \$3,102,301 and \$2,305, 931 at a financial institution were federally uninsured as of December 31, 2017 and 2016, respectively. The uninsured balances resulted from large dues collections at the end of the years and the excess balances were reinvested early in 2018 and 2017. GVR has market risk for its receivables as they mostly relate to residents and others all located in the Southern Arizona area.

NOTE 4- INVESTMENTS AND FAIR VALUE MEASUREMENTS

Commencing in 2016 GVR engaged a professional investment advisor who recommended a broad-based investment strategy for GVR detailed below. Previously GVR held all of its investments in short-term certificates of deposits. GAAP requires that entities use a three-level hierarchy to prioritize the inputs used to measure fair value, and maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Level 1 of the hierarchy utilizes quoted prices for identical assets in active markets to which GVR had access at the measurement date. Level 2

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 4- INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

would utilize quoted prices for similar assets in active markets or identical assets in inactive markets. Level 3 utilizes unobservable inputs for an asset's fair value measurement. Since GVR has ready access to quoted prices from an active market for its investments, it utilizes level 1 inputs to measure their fair value. Only the certificates of deposit are federally insured.

Investments of GVR, all recorded at fair market value at level 1 fair value hierarchy except for certificates of deposit at level 2 hierarchy, were as follows as of December 31, 2017:

<u>Short Term</u>	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gains (Loss)</u>
Money market funds	\$2,786,772	\$2,786,772	
Investing exchange traded and closed end funds	632,549	713,115	\$80,566
Investing mutual funds	338,067	381,181	43,114
Held-to-maturity certificates of deposit	1,120,000	1,117,315	(2,685)
Investing stocks	<u>631,659</u>	<u>781,936</u>	<u>150,277</u>
	<u>5,509,047</u>	<u>5,780,319</u>	<u>271,272</u>
<u>Long Term</u>			
Held-to-maturity certificates of deposit	680,845	677,669	(3,176)
Held-to-maturity municipal bonds	1,259,668	1,226,109	(33,559)
Held-to-maturity corporate bonds	1,848,728	1,849,146	418
Held-to-maturity government and agency securities	<u>768,166</u>	<u>741,678</u>	<u>(26,488)</u>
	<u>4,557,407</u>	<u>4,494,602</u>	<u>(62,805)</u>
Totals	<u>\$10,066,454</u>	<u>\$10,274,921</u>	<u>\$208,467</u>

Investments of GVR, all recorded at fair market value at level 1 fair value hierarchy except for certificates of deposit at level 2 hierarchy, were as follows as of December 31, 2016:

<u>Short Term</u>	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gains (Loss)</u>
Money market funds	\$784,128	\$784,128	
Investing exchange traded and closed end funds	429,585	451,310	\$21,725
Investing mutual funds	365,845	374,766	8,921
Held-to-maturity certificates of deposit	1,063,000	1,061,785	(1,215)
Investing stocks	<u>479,331</u>	<u>512,749</u>	<u>33,418</u>
	<u>3,121,889</u>	<u>3,184,738</u>	<u>62,849</u>
<u>Long Term</u>			
Held-to-maturity certificates of deposit	1,300,845	1,292,678	(8,167)
Held-to-maturity municipal bonds	1,228,760	1,136,643	(92,117)
Held-to-maturity corporate bonds	1,851,544	1,799,222	(52,322)
Held-to-maturity government and agency securities	<u>770,972</u>	<u>741,927</u>	<u>(29,045)</u>
	<u>5,152,121</u>	<u>4,970,470</u>	<u>(181,651)</u>
Totals	<u>\$8,274,010</u>	<u>\$8,155,208</u>	<u>\$(118,802)</u>

In addition, in 2017 the GVR Foundation made an investment of \$25,000 in an endowment fund at the Green Valley Community Foundation.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,622,291	\$ 5,788,567
Buildings and improvements	12,429,122	8,169,006	20,598,128
Tennis, shuffleboard and sports courts	324,958	1,468,786	1,793,744
Pools, spas and equipment	412,588	2,506,461	2,919,049
Recreational equipment	230,841	902,290	1,133,131
Vehicles		528,125	528,125
Furnishings and other equipment	30,000	1,877,597	1,907,597
Projects in progress		865,167	865,167
	<u>17,593,785</u>	<u>17,939,722</u>	<u>35,533,507</u>
Less accumulated depreciation	<u>(9,135,257)</u>	<u>(9,711,323)</u>	<u>(18,846,580)</u>
	<u>\$ 8,458,528</u>	<u>\$ 8,228,399</u>	<u>\$16,686,927</u>

Property and equipment consisted of the following at December 31, 2016:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,622,291	\$ 5,788,567
Buildings and improvements	12,429,122	7,956,550	20,385,672
Tennis, shuffleboard and sports courts	324,958	1,450,040	1,774,998
Pools, spas and equipment	412,588	2,265,242	2,677,830
Recreational equipment	230,841	727,914	958,755
Vehicles		462,049	462,049
Furnishings and other equipment	30,000	1,763,488	1,793,488
Projects in progress		98,574	98,574
	<u>17,593,785</u>	<u>16,346,148</u>	<u>33,939,933</u>
Less accumulated depreciation	<u>(8,884,700)</u>	<u>(8,706,925)</u>	<u>(17,591,625)</u>
	<u>\$ 8,709,085</u>	<u>\$ 7,639,223</u>	<u>\$16,348,308</u>

Depreciation expense was \$1,262,126 and \$1,293,504 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 –DONOR RESTRICTED NET ASSETS

The GVR Foundations' donor restricted net assets consist of the following:

	<u>Balance</u>		<u>Program</u>	<u>Balance</u>
	<u>12-31-16</u>	<u>Additions</u>	<u>Satisfied</u>	<u>12-31-17</u>
Freeport-McMoran Foundation- Retire	\$44,000	\$33,500	\$(26,179)	\$51,321
Arizona website				
Southern AZ Senior Games	16,425		(16,425)	
Endowment fund at GV Community Fdn		25,000		25,000
GVR Pickleball court purchase		5,000		5,000
	<u>\$60,425</u>	<u>\$63,500</u>	<u>\$(42,604)</u>	<u>\$81,321</u>

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2017 and 2016

NOTE 7 – LEASE COMMITMENTS

GVR has entered into several office equipment and mobile storage unit operating lease agreements that currently require minimum monthly lease payments of \$3,678 plus monthly copying charges and have the following minimum lease payments required for each of the years ended December 31 as follows:

2018	\$ 45,669
2019	45,669
2020	45,669
2021	20,561
2022	<u>3,477</u>
	<u>\$ 161,045</u>

Total equipment lease expense was \$53,078 and \$47,721 for the years ended December 31, 2017 and 2016, respectively.

In 2016 GVR entered into an agreement with Verizon Wireless that allowed them to construct and operate a cell tower on a small portion of GVR common property. The agreement requires payments from Verizon of \$2,042 monthly for the first year, and then 2% annual increases for each of the next four years of the agreement.

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 \$106,971 and \$101,972 for the years ended December 31, 2017 and 2016, 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 Combined Statements of Activities are classified by major functional activity as follows for the year ended December 31, 2016:

Program services	\$6,973,571
Management and general	1,936,818
Fundraising	<u>39,527</u>
	<u>\$8,949, 916</u>

Depreciation expense has been estimated at 15% as management and general expense and 85% to program services.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
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NOTE 11 – LITIGATION

GVR is either a defendant or potential defendant in a few minor legal matters which are being handled by attorneys retained by GVR's insurance carrier. It is not reasonably possible at this time to predict the outcome of these matters and what effect, if any, there will be to GVR's finances beyond insurance limits.

NOTE 12 – RESTATEMENTS OF 2016 NET ASSETS AND RECLASSIFICATIONS

GVR restated its December 31, 2016 net asset balances to properly reflect the correct valuations of board designated funds as of December 31, 2016, as a result of not previously allocating the overall decline in fair market values to the respective funds, but rather having recorded it all in the unrestricted fund. There was no effect on overall total net assets.

Certain items have had their presentations amended from their previous presentations for 2016 to conform to the 2017 presentation of the financial statements and the related notes.

NOTE 13- FUTURE MAJOR REPAIRS AND REPLACEMENTS

GVR's governing documents allow for funds to be accumulated for future major repairs and replacements. The capital replacement reserves aggregated \$6,264,272 and \$4,984,427 as of December 31, 2017 and 2016, respectively.

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 full reserve study by an outside consulting company was obtained in June 2016 and updated in September 2017 to determine this information most recently. The company's conclusion was that an optimal fully funded reserve balance would be \$6,450,614 as of December 31, 2017 of which GVR had funded \$6,264,272 or 97.1% as of December 31, 2017. The reserve study is based on a recommended \$940,000 annual contribution for 2018 to the capital replacement reserve, to be increased annually at 1.6%, and a 2.5% inflation factor on the costs of the replacement items.

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 March 5, 2018, the date the reports were made available for issuance. 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 combined financial statements.

SUPPLEMENTARY INFORMATION ABOUT RESERVE STUDY

Green Valley Recreation, Inc.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
DECEMBER 31, 2017

(Unaudited)

GVR's Board of Directors, in conjunction with an outside hired expert company, conducted a full study in June 2016 and updated it in September 2017 to estimate the remaining useful lives and the replacement costs of the components of replaceable property. Replacement costs were based on the estimated costs to make repairs or replacements at the date of the study. Estimated current replacement costs are reviewed periodically and take into account the effects of inflation, estimated at 2.5%, between the date of the study and the date that items will require repair or replacement.

The reserve study recommended that GVR budget \$78,333 per month in 2018 be transferred into the reserve for future repairs and replacements, followed by annual increases of 1.6%, which management intends to do. 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.

Due to the length of the reserve study report management has elected to present information based on the study and present significant information about the items GVR has responsibility for maintaining as of September 2017 on its website www.gvrec.org.