

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

**Combined Financial Statements
December 31, 2018 and 2017**

**Green Valley Recreation, Inc. and
GVR Foundation
December 31, 2018 and 2017**

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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

I have audited the accompanying combined financial statements of Green Valley Recreation, Inc. and GVR Foundation, Arizona nonprofit corporations, which comprise the combined statements of financial position as of December 31, 2018 and 2017 and the related combined statements of activities and changes in net assets, functional expenses 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 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.

Auditor's Responsibility

My responsibility is to express an opinion on the combined financial statements 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Green Valley Recreation, Inc. and GVR Foundation as of December 31, 2018 and 2017 and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 12 to the financial statements as well as page 21 in Supplementary Information.



Tucson, Arizona
February 26, 2019

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINING STATEMENTS OF FINANCIAL POSITION
December 31, 2018

ASSETS	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
Cash and cash equivalents	\$ 1,099,888	\$ 216,792	\$ 1,316,680
Dues assessments and miscellaneous receivables, net of allowance for bad debts of \$176,000	97,020		97,020
Investments	10,995,715	24,350	11,020,065
Prepaid expenses	207,872	10,363	218,235
Property and equipment, net of accumulated depreciation	<u>16,632,511</u>		<u>16,632,511</u>
Total Assets	<u>\$ 29,033,006</u>	<u>\$ 251,505</u>	<u>\$ 29,284,511</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 341,497	\$ 2,282	\$ 343,779
Inter-entity payable (receivable)	1,462	(1,462)	
Deferred dues and fees revenue	1,106,509		1,106,509
Deferred programs revenue	<u>260,046</u>	<u>4,930</u>	<u>264,976</u>
Total Liabilities	<u>1,709,514</u>	<u>5,750</u>	<u>1,715,264</u>
NET ASSETS			
Net assets without donor restrictions	18,641,306	67,039	18,708,345
Donor restricted net assets		178,716	178,716
Board designated net assets-Reserves for emergency operation	804,646		804,646
Board designated net assets-Reserves for capital replacements	5,881,453		5,881,453
Board designated net assets-Reserves for initiatives	<u>1,996,087</u>		<u>1,996,087</u>
Total Net Assets	<u>27,323,492</u>	<u>245,755</u>	<u>27,569,247</u>
Total Liabilities and Net Assets	<u>\$ 29,033,006</u>	<u>\$ 251,505</u>	<u>\$ 29,284,511</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, 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 ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2018

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>Green Valley Recreation, Inc.</u>	<u>GVR Foundation</u>	<u>Combined Totals</u>
Operating revenues, gains and other support:			
Membership dues	\$ 6,690,385		\$ 6,690,385
New member capital/initial fees	2,345,508		2,345,508
Life care, transfer, tenant, additional card and other fees	746,853		746,853
Recreation income	736,508	\$ 37,265	773,773
Communications	152,220		152,220
Investment income/realized capital gains	323,151	23	323,174
Donations		2,121	2,121
Other income and special events	47,916	4,658	52,574
Total operating revenues, gains and other support without donor restrictions before releases from restrictions	<u>11,042,541</u>	<u>44,067</u>	<u>11,086,608</u>
Net assets released from donor restrictions			
Satisfaction of program restrictions		77,253	77,253
Total operating revenues, gains and other support without donor restrictions	<u>11,042,541</u>	<u>121,320</u>	<u>11,163,861</u>
Operating expenses			
Facilities and equipment	3,483,230		3,483,230
Personnel	4,659,396		4,659,396
Programs	737,143	135,871	873,014
Communications	190,575		190,575
Operations	327,679		327,679
Corporate expenses	883,891	14,183	898,074
Total operating expenses	<u>10,281,914</u>	<u>150,054</u>	<u>10,431,968</u>
Increase (decrease) in operating net assets without donor restrictions	<u>760,627</u>	<u>(28,734)</u>	<u>731,893</u>
Other changes:			
Net unrealized market value change of investments	(265,464)	(650)	(266,114)
Total increase (decrease) in net assets without donor restrictions	<u>495,163</u>	<u>(29,384)</u>	<u>465,779</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS			
Donations and grants		174,648	174,648
Net assets with donor restrictions released to without donor restrictions		(77,253)	(77,253)
Increase in net assets with donor restrictions		<u>97,395</u>	<u>97,395</u>
Increase in total net assets	<u>495,163</u>	<u>68,011</u>	<u>563,174</u>
NET ASSETS, BEGINNING OF YEAR	<u>26,828,329</u>	<u>177,744</u>	<u>27,006,073</u>
NET ASSETS, END OF YEAR	<u>\$ 27,323,492</u>	<u>\$ 245,755</u>	<u>\$ 27,569,247</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	<u>11,152,583</u>
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>
Increase 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><u>\$ 26,828,329</u></u>	<u><u>\$ 177,744</u></u>	<u><u>\$ 27,006,073</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, 2018

	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 495,163	\$ 68,011	\$ 563,174
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:			
Depreciation	1,474,941		1,474,941
Allowance for doubtful accounts	24,000		24,000
Unrealized losses in fair market value of investments	265,464	650	266,114
Changes in operating assets and liabilities:			
Decrease in dues assessments & miscellaneous receivables	2,584		2,584
Decrease (increase) in inter-entity receivables (payables)	719	(719)	
(Increase) in prepaid expenses	(34,425)	(4,711)	(39,136)
(Increase) decrease in accounts payable & accrued expenses	(67,682)	946	(66,736)
Decrease in deferred dues and fees revenue	(3,123,944)		(3,123,944)
Decrease in deferred programs revenue	(69,306)	(920)	(70,226)
Net Cash Provided By (Used By) Operating Activities	<u>(1,032,486)</u>	<u>63,257</u>	<u>(969,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,420,525)		(1,420,525)
Proceeds from sales of investments	6,129,856		6,129,856
Purchases of investments	(7,116,114)		(7,116,114)
Net Cash (Used For) Investing Activities	<u>(2,406,783)</u>	<u>-</u>	<u>(2,406,783)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,439,269)	63,257	(3,376,012)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>4,539,157</u>	<u>153,535</u>	<u>4,692,692</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,099,888</u>	<u>\$ 216,792</u>	<u>\$ 1,316,680</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
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	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -

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, 2018 and 2017

	<u>Totals</u>	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions-Other</u>	<u>Without Donor Restrictions-Investments</u>	<u>Reserves for Emergencies</u>	<u>Reserves for Capital Replacements</u>	<u>Reserves for Initiatives</u>
NET ASSETS, December 31, 2016	\$24,858,331	\$60,425	\$16,642,697	\$423,277	\$814,203	\$4,984,427	\$1,933,302
Net increase in net assets-GVR	2,081,372	20,896	2,081,372				
Net increase in net assets-GVR Foundation	66,370	45,474	45,474				
Transfers between unrestricted and reserves:							
Reserve study allocation			(914,400)			914,400	
Repairs and replacements transfers			500,000				(500,000)
Other transfers			(1,146,839)	1,112,075			34,764
Allocations of net change components:							
Investment income			(196,973)	16,625	24,153	115,572	40,623
Investment expenses			10,509	(25)	(6,045)	(4,439)	
Unrealized changes in fair market values			(372,009)	(3,195)	98,031	254,312	22,861
NET ASSETS, December 31, 2017	<u>27,006,073</u>	<u>81,321</u>	<u>16,649,831</u>	<u>1,548,757</u>	<u>930,342</u>	<u>6,264,272</u>	<u>1,531,550</u>
Net increase in net assets-GVR	495,163		495,163				
Net increase in net assets-GVR Foundation	68,661	97,395	(28,734)				
Transfers between without restrictions and reserves:							
Reserve study allocation			(940,002)			940,002	
Repairs and replacements transfers			1,365,876			(1,313,488)	(52,388)
Other transfers			(1,165,876)	721,593	(55,717)		500,000
Allocations of net change components:							
Investment income			(254,473)	45,814	51,948	120,067	36,644
Investment expenses			8,218	(7,825)	(393)	(393)	
Unrealized changes in fair market values			264,813	(2,635)	(114,102)	(129,007)	(19,719)
NET ASSETS, December 31, 2018	<u>\$27,569,897</u>	<u>\$178,716</u>	<u>\$16,394,816</u>	<u>\$2,313,529</u>	<u>\$804,646</u>	<u>\$5,881,453</u>	<u>\$1,996,087</u>

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, 2018

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Facilities and equipment				
Major projects-repair and maintainar	\$ 500,790	\$	\$	\$ 500,790
Facility maintenance	242,303	17,873	365	260,541
Fees and assessments	11,205	2,754	56	14,015
Utilities	840,152	91,483	1,867	933,502
Depreciation	1,253,700	216,816	4,425	1,474,941
Furniture and equipment	234,115	5,685	116	239,916
Vehicles operations	50,890	8,800	180	59,869
Personnel				
Wages, benefits, payroll taxes	3,542,469	1,037,624	21,175	4,601,268
Conferences and training	49,274	8,649	176	58,098
Programs				
Recreation contracts and other	729,804		4,080	733,884
Bank and credit card fees	38,764	31,871	650	71,285
Food and catering	27,370	17,272	352	44,994
Communications				
Communications	85,124	8,259	169	93,552
Printing	47,052	45,332	925	93,309
Advertising	1,310	2,395	49	3,754
Operations				
Supplies	259,192	12,195	249	271,636
Postage	7,974	11,312	231	19,517
Dues and subscriptions	2,189	8,717	178	11,084
Travel and entertainment	4,545	666	14	5,225
Other operating expenses	31,276	691	14	31,981
Corporate				
Information technology	172,376	184,190	3,759	360,325
Professional fees	98,223	148,345	3,027	249,595
Commercial insurance	24,120	169,808	3,465	197,393
Taxes	54	20,282	414	20,750
Bad debts		79,129	1,615	80,744
TOTAL FUNCTIONAL EXPENSES	<u>\$ 8,254,271</u>	<u>\$ 2,130,147</u>	<u>\$ 47,550</u>	<u>\$ 10,431,968</u>

Note- fundraising expenses are recorded directly as incurred, plus 2% of general and administrative expenses are allocated to fundraising on an indirect basis.

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 maintainar \$	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>

Note- fundraising expenses are recorded directly as incurred, plus 2% of general and administrative expenses are allocated to fundraising on an indirect basis.

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, 2018 and 2017

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 13,585 and 13,549 member properties as of December 31, 2018 and 2017, 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.

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 requires 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 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 GVR and GVR Foundation elected to early adopt this standard for the year ended December 31, 2017 and accordingly the accompanying financial statements reflect the implementation, including the addition of a combining statement of functional expenses.

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.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation of Combined Financial Statements (continued)

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.

GVR provides services for GVR Foundation under a Board approved Resource Sharing Agreement. GVR Foundation also provides services on behalf of GVR. As of December 31, 2018 GVR management had determined that it had incurred \$5,125 more than GVR Foundation in unreimbursed expenses which is not recorded in the accompanying financial statements because it is not a liability to GVR in accordance with the Resource Sharing Agreement.

Recent New Major Pronouncements and Implementation 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 and GVR Foundation’s management evaluate the estimates and assumptions based upon historical experience and various other factors and circumstances. They believe that the estimates and assumptions are reasonable in the circumstances however, the actual results could differ from those estimates.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents For purposes of the statement of cash flows, GVR and GVR Foundation 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 \$493 and \$485 in 2018 and 2017, 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 as of 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, 2018 and 2017

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, 2018 and 2017, respectively, there were no such assets held by GVR, only by the GVR Foundation.

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, 2018 and 2017, respectively.

Advertising Advertising costs are expensed as incurred. Advertising expenses were \$3,754 and \$5,572 for the years ended December 31, 2018 and 2017, respectively.

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 \$622,021 and \$3,102,301 at a financial institution were federally uninsured as of December 31, 2018 and 2017, respectively. The uninsured balances resulted from large dues collections at the end of the years and the excess balances were reinvested early in 2019 and 2018. 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

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 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

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2018 and 2017

NOTE 4- INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2018:

<u>Short Term</u>	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gains (Loss)</u>
Money market and cash funds	\$2,235,027	\$2,235,027	
Investing exchange traded and closed end funds	581,926	582,203	\$277
Investing mutual funds	413,931	377,153	(36,778)
Certificates of deposit	2,380,000	2,378,436	(1,564)
Investing stocks	<u>583,220</u>	<u>721,576</u>	<u>138,356</u>
	<u>6,194,104</u>	<u>6,294,995</u>	<u>100,891</u>
<u>Long Term</u>			
Certificates of deposit	493,845	485,772	(8,073)
Municipal bonds	1,258,228	1,207,258	(50,970)
Corporate bonds	1,845,847	1,773,874	(71,973)
Government and agency securities	<u>1,260,688</u>	<u>1,233,816</u>	<u>(26,872)</u>
	<u>4,858,608</u>	<u>4,700,720</u>	<u>(157,888)</u>
Totals	<u>\$11,052,712</u>	<u>\$10,995,715</u>	<u>\$(56,997)</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, 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
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>			
Certificates of deposit	680,845	677,669	(3,176)
Municipal bonds	1,259,668	1,226,109	(33,559)
Corporate bonds	1,848,728	1,849,146	418
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>

In addition, in 2017 the GVR Foundation made an investment of \$25,000 in an endowment fund of various mutual funds at the Green Valley Community Foundation. The value of the account declined to \$24,350 as of December 31, 2018.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2018 and 2017

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2018:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,875,260	\$ 6,041,536
Buildings and improvements	12,429,122	9,323,846	21,752,968
Tennis, shuffleboard and sports courts	324,958	1,601,458	1,926,416
Pools, spas and equipment	412,588	2,558,550	2,971,138
Recreational equipment	230,841	992,597	1,223,438
Vehicles		665,917	665,917
Furnishings and other equipment	30,000	1,988,529	2,018,529
Projects in progress		348,110	348,110
	<u>17,593,785</u>	<u>19,354,267</u>	<u>36,948,052</u>
Less accumulated depreciation	<u>(9,452,916)</u>	<u>(10,862,625)</u>	<u>(20,315,541)</u>
	<u>\$ 8,140,869</u>	<u>\$ 8,491,642</u>	<u>\$16,632,511</u>

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>

Depreciation expense was \$1,474,941 and \$1,262,126 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6 –DONOR RESTRICTED NET ASSETS

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

	Balance		Program	Balance
	<u>12-31-17</u>	<u>Additions</u>	<u>Satisfied</u>	<u>12-31-18</u>
Retire Arizona website	\$51,321	\$ 57,879	\$(47,435)	\$61,765
MAP Endowment		1,225		1,225
Passport program		2,420		2,420
GVR Member Assistance Program		36,723	(25,630)	11,093
Endowment fund at GV Community Fdn	25,000			25,000
GVR Pickleball court purchase	<u>5,000</u>	<u>76,401</u>	<u>(4,188)</u>	<u>77,213</u>
	<u>\$81,321</u>	<u>\$174,648</u>	<u>\$(77,253)</u>	<u>\$178,716</u>

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
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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 \$4,401 plus monthly copying charges and have the following minimum lease payments required for each of the years ended December 31 as follows:

2019	\$ 52,183
2020	52,183
2021	27,076
2022	<u>9,994</u>
	<u>\$ 141,436</u>

Total equipment lease expense was \$53,295 and \$53,078 for the years ended December 31, 2018 and 2017, respectively.

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 (2016), 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, 2018 and 2017, 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- LIQUIDITY

Financial assets on a combined basis as of 12-31-18	\$12,433,765
Less those unavailable for general expenditures within one year, due to:	
Lease commitments	(52,183)
Subject to appropriation and satisfaction of donor restrictions	<u>(178,716)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,202,866</u>

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2018 and 2017

NOTE 10– LIQUIDITY (continued)

As part of GVR's and GVR Foundation's liquidity management, they have a policy to structure their financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, they invest cash in excess of immediate and very short-term projected requirements in money market accounts. These short-term, liquid investments may be used to fulfil needs resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, GVR and GVR Foundation could increase dues or even have a special assessment.

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, however, the outcomes are not expected to have a material effect on the financial statements.

NOTE 12- 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 \$5,881,453 and \$6,264,272 as of December 31, 2018 and 2017, 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 August 2018 to determine this information most recently. The company's conclusion was that an optimal fully funded reserve balance would be \$7,258,858 as of December 31, 2019 of which GVR had funded a net \$5,881,453 or 81% as of December 31, 2018. The reserve study is based on a recommended \$966,233 annual contribution for 2019 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 13 – SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated through February 26, 2019, 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, 2018

(Unaudited)

GVR's Board of Directors, in conjunction with an outside hired expert company, conducted a full study in June 2016 and updated it most recently in August 2018 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 \$80,519 per month in 2019 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 August 2018 on its website www.gvrec.org.