

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Boards of Directors
Green Valley Recreation, Inc. and GVR Foundation
Green Valley, Arizona

Report on the financial statements

We have audited the accompanying consolidated financial statements of Green Valley Recreation, Inc. and GVR Foundation (Arizona nonprofit organizations), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated 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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 18 through 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

HBL CPAs, P.C.

HBL CPAs, P.C.

April 8, 2020

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

Current assets:

Cash and cash equivalents:		
Held in deposit accounts	\$	2,659,056
Held in investment brokerage accounts		1,793,068
		4,452,124
Accounts receivable		171,391
Accrued interest		49,487
Investments		11,918,259
Beneficial interest in funds held at a community foundation		27,907
Prepaid expenses		313,753
Total current assets		16,932,921

Non-current assets -

Property and equipment, net		17,670,198
	\$	34,603,119

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	311,977
Accrued payroll and related taxes		180,181
Deferred membership dues		4,331,532
Deferred program revenue		285,935
Total current liabilities		5,109,625

Non-current liabilities -

Custodial liabilities		9,450
		5,119,075

Net assets:

Without donor restrictions		
Undesignated available for operations		18,934,608
Board designated reserves for emergency operations		865,396
Board designated reserves for initiatives		2,465,305
Board designated reserves for repairs and replacements		7,085,389
Board designated quasi-endowment		12,500
		29,363,198
With donor restrictions		120,846
		29,484,044
	\$	34,603,119

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Membership dues	\$ 6,712,673	\$ -	\$ 6,712,673
New member capital and initial fees	2,423,079	-	2,423,079
Investment income	1,026,672	3,557	1,030,229
Access card fees	777,911	-	777,911
Program revenue	680,001	-	680,001
Contributions	4,264	218,348	222,612
In-kind contributions	309,387	-	309,387
Advertising revenue	129,559	-	129,559
Late fees	90,012	-	90,012
Facility rent revenue	72,017	-	72,017
Cell tower lease income	38,378	-	38,378
Other revenue	11,851	-	11,851
	<u>12,275,804</u>	<u>221,905</u>	<u>12,497,709</u>
Net assets released from restrictions	<u>267,275</u>	<u>(267,275)</u>	<u>-</u>
Total public support and revenues	12,543,079	(45,370)	12,497,709
Expenses:			
Program services	8,140,716	-	8,140,716
General and administrative	2,364,775	-	2,364,775
Fundraising	9,323	-	9,323
Total expenses	<u>10,514,814</u>	<u>-</u>	<u>10,514,814</u>
Change in net assets	2,028,265	(45,370)	1,982,895
Net assets, beginning of year, as restated	<u>27,334,933</u>	<u>166,216</u>	<u>27,501,149</u>
Net assets, end of year	<u>\$ 29,363,198</u>	<u>\$ 120,846</u>	<u>\$ 29,484,044</u>

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	<u>Program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 2,696,455	\$ 869,446	\$ -	\$ 3,565,901
Employee related expenses	<u>881,586</u>	<u>284,260</u>	<u>-</u>	<u>1,165,846</u>
	3,578,041	1,153,706	-	4,731,747
Advertising	566	-	90	656
Bad debt expense	-	33,925	-	33,925
Bank and credit card fees	52,925	42,938	99	95,962
Catering	33,414	5,239	-	38,653
Communication	57,859	36,831	-	94,690
Computer expense	37,340	27,509	-	64,849
Depreciation	1,334,034	269,043	-	1,603,077
Dues and subscriptions	1,970	10,933	-	12,903
Employee training	14,857	23,461	-	38,318
Facility maintenance	323,884	1,598	-	325,482
Fees and taxes	31,770	26,226	-	57,996
Grants and program expenses	249,850	-	1,300	251,150
Insurance	-	244,438	-	244,438
Investment fees	-	53,761	-	53,761
Miscellaneous	4,936	-	-	4,936
Professional services	25,485	274,998	-	300,483
Postage and printing	40,307	77,390	7,738	125,435
Recreation contracts	556,121	-	-	556,121
Rental expense	19,198	-	-	19,198
Repair and maintenance	597,466	-	-	597,466
Signage	15,945	-	-	15,945
Supplies	228,025	24,126	-	252,151
Travel	13,289	5,466	96	18,851
Utilities	816,651	54,858	-	871,509
Vehicles	67,612	32	-	67,644
Uncapitalized equipment	<u>39,171</u>	<u>52,058</u>	<u>-</u>	<u>91,229</u>
Total functional expenses	8,140,716	2,418,536	9,323	10,568,575
Less investment fees netted against revenues	<u>-</u>	<u>(53,761)</u>	<u>-</u>	<u>(53,761)</u>
Total expenses	<u>\$ 8,140,716</u>	<u>\$ 2,364,775</u>	<u>\$ 9,323</u>	<u>\$ 10,514,814</u>

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

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:	
Change in net assets	\$ 1,982,895
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	1,603,077
Donated property and equipment	(309,387)
Realized (gains) on investments	(196,209)
Unrealized (gains) on investments	(527,804)
Change in fair value of beneficial interest in funds	(3,557)
(Increase) decrease in operating assets:	
Accounts receivable	(73,953)
Accrued interest	(49,487)
Prepaid expenses	(95,518)
Increase (decrease) in operating liabilities:	
Accounts payable	163,415
Accrued payroll and related taxes	(13,124)
Deferred membership dues	3,156,063
Deferred program revenue	24,609
Custodial liabilities	4,333
Net cash provided by operating activities	<u>5,665,353</u>
Cash flows from investing activities:	
Purchases of property and equipment	(2,331,377)
Proceeds from sale of investments	11,801,326
Purchases of investments	<u>(14,246,348)</u>
Net cash (used in) investing activities	<u>(4,776,399)</u>
Change in cash and cash equivalents	888,954
Cash and cash equivalents, beginning of year	<u>3,563,170</u>
Cash and cash equivalents, end of year	<u>\$ 4,452,124</u>
Cash and cash equivalents available for operations	\$ 4,359,185
Restricted cash and cash equivalents	<u>92,939</u>
Total cash and cash equivalents	<u>\$ 4,452,124</u>

Supplemental cash flow information:

No cash paid for income taxes or interest in 2019.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 – Organization

Green Valley Recreation, Inc. (GVR) was incorporated as a not-for-profit 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. All property owners with certain geographic boundaries as defined by GVR's by-laws require regular membership in GVR. Members' properties are encumbered by deed restrictions that require perpetual membership and payment of annual dues and assessments, including a capital investment fee upon each property's transfer. There were 13,650 member properties as of December 31, 2019.

GVR has assumed responsibility for operation, maintenance, and upkeep for recreational facilities donated by area developers at the completion of housing developments within GVR's boundaries.

In 2014, GVR formed a 501(c)(3) entity, GVR Foundation (the Foundation), to enhance donation opportunities and to support GVR's member assistance program (MAP), through which eligible members can seek assistance with GVR's annual fees. In 2016, the Foundation took over management of the GVR Senior Games.

NOTE 2 – Summary of significant accounting policies

Principles of consolidation

The primary function of the Foundation is to raise funds that are contributed to the Member Assistance Program (MAP) and to administer the Senior Games on GVR's behalf. The bylaws of the Foundation state that GVR has the ability to appoint members to the Foundation's board. In addition, the Foundation's bylaws prohibit the Foundation from liquidating or dissolving the entity, merging with another entity, or modifying or amending its bylaws without the approval of GVR. As a result, it has been determined that the Foundation is controlled by GVR in accordance with U.S. generally accepted accounting principles (US GAAP).

The consolidated financial statements include the accounts of GVR and the Foundation. All significant interentity accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter collectively referred to as "the Organization".

Basis of presentation

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash in bank deposit accounts which may exceed federally insured limits. Uninsured cash at December 31, 2019 was \$1,574,178.

Accounts receivable

Accounts receivable consist of unpaid membership dues and facility rentals established under contractual agreements. The Organization records an allowance for doubtful accounts equal to the estimated collection losses that will be incurred, which are based on historical collection experience. As a result, there is at least a possibility that these estimates will change by a material amount in the near term. Doubtful accounts are periodically reviewed for collectability and charged to the allowance account when management determines that the amounts are uncollectible.

Investments

Investments consist of marketable securities in debt and equity securities and mutual funds under management with various national brokerages, all of which are carried at quoted market values determined at the date of the statement of financial position. Income, gains and losses are reported in the statements of activities as increases and decreases in net assets without donor restrictions.

Beneficial interest in funds held at a community foundation

In June of 2017, the Foundation entered into an agreement with the Greater Green Valley Community Foundation, Inc. (GGVCF) in which the Foundation and the GGVCF would each deposit \$12,500 into an investment account. The balance of the would be required to remain in the investment account until June of 2020 at which time the Foundation would have the right to withdraw the entire sum including accumulated investment earnings. As of the date of report, Foundation has expressed no intention of withdrawing funds from the account and it is therefore presumed that the condition will be satisfied and the match contribution from GGVCF will be earned. As a result, the entire balance of the account, comprising both the Foundation's own initial donation and the \$12,500 donation of GGVCF, as well as \$2,907 of accumulated earnings thereon, is recorded as an asset of the Foundation.

Property and equipment

GVR capitalizes all expenditures for property and equipment in excess of \$5,000 with a useful life greater than one year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. The Foundation has no capitalized property and equipment.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 2 – Summary of significant accounting policies, continued

Custodial funds held for others

The Foundation hold funds raised by the individual members of the Hunting and Fishing Club of GVR (the Club). The members of the Club from time to time direct the Foundation to make donations to charities from the funds held. GVR did not hold funds for others either at December 31, 2019 or during the year then ended.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although the Organization utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income tax status

GVR and the Foundation are exempt from Federal income tax under Sections 501(c)(4) and 501(c)(3) of the Internal Revenue Code, respectively. However, income from certain activities not directly related to either entity's tax-exempt purposes may be subject to taxation as unrelated business income.

In accordance with generally accepted accounting principles, the Organization holds no uncertain tax positions and, therefore, has no policy for evaluating them. The Organization's Forms 990, *Return of Organization Exempt from Income Taxes*, are generally subject to examination by the Internal Revenue Service for three years after the date the returns were filed.

Advertising expense

Advertising costs are expensed as incurred, and totaled \$656 for the year ended December 31, 2019.

Functional allocation of expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents expenses by natural classification and by function in a matrix format, as required by *ASU 2016-14*. Certain costs have been allocated between the program services and supporting services.

Expenses are typically allocated based on a method that is deemed appropriate by management in the manner in which the expense is accrued. Indirect costs are the only expenses that are deemed as administrative by function. Management typically codes expenses to a program, administrative, fundraising or another shared expense category during the payment process. Shared expenses are allocated either by percentage of staff time within the administrative, fundraising, and program categories or based on the (1) square footage allocations or (2) headcount allocation including normal office volunteers.

Shared direct expenses are typically those that are incurred in support of program work and can be allocated by either the salary basis or shared direct expense allocation. Such expenses include employee benefits, employment taxes, occupancy costs, technology, equipment, telephone, postage, and office supplies, etc.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 2 – Summary of significant accounting policies, continued

Endowments

The Foundation's endowments consist of one donor-restricted fund held at a brokerage (MAP Endowment) by the Foundation and one fund established by the Foundation's Board of Directors to function as a quasi-endowment. GVR held no endowments at either of the years ended December 31, 2019 or 2018. As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated by the Board of Directors of the Foundation to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State of Arizona's Management of Charitable Funds Act (MCFA or the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as net assets with donor restriction in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction in perpetuity is classified as with donor restrictions satisfied by time or action until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, The Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Membership dues, receivables, and deferred revenue

Annual membership dues for the year ended December 31, 2019 were \$493 per household. It is GVR's policy to bill members for annual dues in advance of the January 1 due date. Revenue is measured based on a consideration specified in a contract with a customer. The Organization recognizes revenue when it satisfies a performance obligation as defined by the type of revenue transaction. Payments received for which there is an outstanding performance obligation are considered deferred revenue. Deferred revenue from members includes prepayments on future calendar year memberships, access cards, classes, concerts, and tours.

Receivables from members are considered past due 30 days after the billing date and are secured by a lien on the member's property, as management considers necessary. In some cases, the proceeds from the sale or foreclosure of a property are less than the lien in first position resulting in a loss for uncollected membership dues. An allowance for doubtful accounts is recorded based on management's estimate of potential loss, which is based on historical collection experience. As a result, there is at least a possibility that these estimates will change by a material amount in the near term. Doubtful accounts are periodically reviewed for collectability and charged to the allowance account when management determines that the amounts are uncollectible.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 2 – Summary of significant accounting policies, continued

New accounting pronouncement

In May of 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The update supersedes 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 and services. The update 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 that 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 update requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The Organization has adjusted the presentation of these financial statements accordingly, and because of the adoption of the new standard, comparative financial statements are not presented. Implementation of this ASU did not result in any reclassification or restatements of net assets, by class or in total, as originally reported in any previous accounting period.

NOTE 3 – Liquidity and availability

Management regularly monitors the availability of financial resources required to meet current operating needs. The Organization generally maintains financial resources as cash. The Organization utilizes a one-year time horizon to assess its immediate liquidity needs. This period of time was established based on management’s understanding of the typical cycle of payables in the normal course of business. The Organization invests cash in excess of immediate projected requirements in short-term, liquid investments that may be used to fulfill liquidity needs resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of a significant, unanticipated liquidity need, GVR has the ability to raise additional funds through special assessments or increased annual membership dues. The following reflects The Organization’s financial assets, assets restricted by donor stipulation, and financial liabilities expected to come due within the one-year time horizon:

	<u>GVR</u>	<u>Foundation</u>	<u>Total</u>
Financial assets:			
Cash and cash equivalents	\$ 4,298,339	\$ 153,785	\$ 4,452,124
Accounts receivable	171,391	-	171,391
Accrued interest	49,487	-	49,487
Investments	11,918,259	-	11,918,259
Beneficial interest in funds held at a community foundation	-	27,907	27,907
	<u>16,437,476</u>	<u>181,692</u>	<u>16,619,168</u>
Less amounts unavailable due to:			
Board designations:			
Emergency operations	(865,396)	-	(865,396)
Initiatives	(2,465,305)	-	(2,465,305)
Repairs and replacements	(7,085,389)	-	(7,085,389)
Quasi-endowment	-	(12,500)	(12,500)
Donor-imposed restrictions:			
Restricted by donor for purpose or time	-	(118,276)	(118,276)
Restricted by donor in perpetuity	-	(2,570)	(2,570)
	<u>(10,416,090)</u>	<u>(133,346)</u>	<u>(10,549,436)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,021,386</u>	<u>\$ 48,346</u>	<u>\$ 6,069,732</u>

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 4 – Accounts receivable

Accounts receivable consisted of the following at December 31, 2019:

	<u>GVR</u>	<u>Foundation</u>	<u>Total</u>
Accounts receivable	\$ 371,391	\$ -	\$ 371,391
Less allowance for uncollectible accounts	(200,000)	-	(200,000)
	<u>\$ 171,391</u>	<u>\$ -</u>	<u>\$ 171,391</u>

NOTE 5 – Fair value measurements and investment income

Fair value measurements are determined based on the assumptions, referred to as inputs, that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and The Organization's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are The Organization's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of The Organization's marketable securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Small issue municipal bonds are valued by the investment brokerages holding the assets.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization does not utilize Level 3 inputs.

Fair values of assets measured on a recurring basis at December 31, 2019 were as follows:

	<u>Level 1</u>			<u>Level 2</u>	
	<u>GVR</u>	<u>Foundation</u>	<u>Total</u>	<u>GVR</u>	<u>Total</u>
Investments:					
Corporate bonds	\$ 5,013,038	\$ -	\$ 5,013,038	\$ -	\$ 5,013,038
Mutual funds	3,149,848	-	3,149,848	-	3,149,848
Common stock	1,957,987	-	1,957,987	-	1,957,987
Government bonds	606,991	-	606,991	-	606,991
Certificates of deposit	495,199	-	495,199	-	495,199
Exchange traded funds	283,402	-	283,402	-	283,402
Municipal bonds	124,338	-	124,338	-	124,338
REITs	25,569	-	25,569	-	25,569
Small issue municipal bonds	-	-	-	261,887	261,887
	<u>11,656,372</u>	<u>-</u>	<u>11,656,372</u>	<u>261,887</u>	<u>11,918,259</u>
Beneficial interest in funds held at a community foundation -					
Mutual funds	-	27,907	27,907	-	27,907
	<u>\$ 11,656,372</u>	<u>\$ 27,907</u>	<u>\$ 11,684,279</u>	<u>\$ 261,887</u>	<u>\$ 11,946,166</u>

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 5 – Fair value measurements and investment income, continued

Activity related to assets measured at fair value on a recurring basis utilizing Level 2 inputs, which are assets only of GVR, was as follows for the year ended December 31, 2019:

	Beginning balance	Change in fair value	Ending balance
Small issue municipal bonds	\$ 252,090	\$ 9,797	\$ 261,887

Investment income consisted of the following for the year ended December 31, 2019:

	GVR	Foundation	Total
Interest and dividends	\$ 356,293	\$ 127	\$ 356,420
Realized gains	196,209	-	196,209
Unrealized gains and losses	527,804	-	527,804
Change in value of beneficial interest	-	3,557	3,557
Investment fees	(53,761)	-	(53,761)
	<u>\$ 1,026,545</u>	<u>\$ 3,684</u>	<u>\$ 1,030,229</u>

NOTE 6 – Property and equipment

The Foundation had no property or equipment at December 31, 2019. Property and equipment of GVR consisted of the following at December 31, 2019:

	Contributed	Purchased	Total
Land and improvements	\$ 4,166,277	\$ 1,875,260	\$ 6,041,537
Buildings and improvements	12,429,122	9,941,215	22,370,337
Tennis, shuffleboard, and sports courts	324,958	1,907,326	2,232,284
Pools, spas, and equipment	412,588	2,706,593	3,119,181
Recreational equipment	230,841	1,117,295	1,348,136
Vehicles	-	775,931	775,931
Furniture and equipment	30,000	2,137,408	2,167,408
Construction in progress	-	1,534,022	1,534,022
	<u>17,593,786</u>	<u>21,995,050</u>	<u>39,588,836</u>
Less accumulated depreciation	<u>(9,763,349)</u>	<u>(12,155,289)</u>	<u>(21,918,638)</u>
	<u>\$ 7,830,437</u>	<u>\$ 9,839,761</u>	<u>\$ 17,670,198</u>

NOTE 7 – 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 \$110,583 for the year ended December 31, 2019. The Foundation does not have a retirement plan.

NOTE 8 – Related party transactions

Many of GVR's members also participate in special interest clubs that utilize meeting space in recreational buildings at no charge. GVR also provides these clubs with minor administrative services at no charge. Several employees of GVR are also GVR members.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 9 – Net assets with donor restrictions

Activity in net assets with donor restrictions for the year ended December 31, 2019, and balances of net assets with donor restrictions as of the year then ended, were as follows for the Foundation:

	<u>Beginning balance</u>	<u>Contributions</u>	<u>Investment income</u>	<u>Releases/ appropriations</u>	<u>Ending balance</u>
Subject to purpose restrictions:					
Member Assistance					
Program	\$ 11,093	\$ 30,969	\$ -	\$ (19,973)	\$ 22,089
Pickleball	77,213	180,886	-	(243,054)	15,045
Retire Arizona	61,765	1,848	-	(504)	63,109
Passport	<u>2,420</u>	<u>3,300</u>	<u>-</u>	<u>(3,094)</u>	<u>2,626</u>
	152,491	217,003	-	(266,625)	102,869
Subject to the passage of time -					
GGVCF match fund	12,500	-	3,557	(650)	15,407
Endowments, with donor restrictions perpetual in nature -					
Member Assistance					
Program	<u>1,225</u>	<u>1,345</u>	<u>-</u>	<u>-</u>	<u>2,570</u>
	<u>\$ 166,216</u>	<u>\$ 218,348</u>	<u>\$ 3,557</u>	<u>\$ (267,275)</u>	<u>\$ 120,846</u>

GVR had received no contributions with donor restrictions during the year ended December 31, 2019, and had no net assets with donor restriction at that year end.

Restricted cash at December 31, 2019 was calculated as follows:

	<u>GVR</u>	<u>Foundation</u>	<u>Total</u>
Net assets with donor restrictions	\$ -	\$ 120,846	\$ 120,846
Less amounts held in beneficial interest in funds held at a community foundation	<u>-</u>	<u>(27,907)</u>	<u>(27,907)</u>
Net assets with donor restrictions held in deposit accounts	<u>\$ -</u>	<u>\$ 92,939</u>	<u>\$ 92,939</u>

NOTE 10 – Operating leases

GVR leases office equipment and a mobile storage unit under non-cancelable operating leases. Rental expense for the year ended December 31, 2019 was \$27,498 and is included in facility maintenance expense in the statement of functional expenses. Future minimum lease payments under these operating leases are as follows:

Year ending December 31, 2020	\$ 42,704
2021	39,187
2022	36,447
2023	32,863
2024	12,672
	<u>\$ 163,873</u>

The Foundation was not subject to any lease agreements at December 31, 2019, nor at any time during the year then ended.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 11 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, accumulated deficiencies of this nature are reported in net assets with donor restrictions. There were no such accumulated deficiencies at December 31, 2019.

Return objectives and risk parameters

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Boards of Directors, the endowment assets are invested in a manner that is intended to produce a net average annual total return, over the long term, equal to the change in the consumer price index plus 5%.

Investment strategies

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies

The Organization has a board approval spending policy that allows the operating fund to receive and recognize investment earnings originating from the endowment fund. As of December 31, 2019, the Board approved spending policy allowed for appropriation equal to 5% of the average value of the endowment over the prior three years.

However, the annual amount available for distribution shall not cause the principal amount of the endowment to fall below the original contributions made to the endowment after adjusting for inflation. As a result, the actual amount available to support operations in any one year may be less than 5%.

Endowment fund net assets

Net assets in the endowment funds consisted of the following at December 31, 2019:

	GVR Foundation		Total
	Net assets without donor restrictions	Net assets with donor restrictions in perpetuity	
Beginning balance	\$ 12,500	\$ 1,225	\$ 13,725
Additions	-	1,345	1,345
Ending balance	<u>\$ 12,500</u>	<u>\$ 2,570</u>	<u>\$ 15,070</u>

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 12 – Future major repairs and replacements

GVR’s governing documents allow funds to be accumulated for future major repairs and replacements. The capital replacement reserves aggregated \$7,085,389 as of December 31, 2019. GVR funds 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 consultant was obtained in June of 2016 and updated in September of 2019. The study concluded that the fully funded reserve balance at December 31, 2020 would be \$8,264,006 of which GVR had funded \$7,085,389 or 86% at December 31, 2019. The reserve study is based on a recommended annual contribution of \$1,005,942 for 2020 to the replacement reserve, to be increased annually at a rate of 4.1%, inclusive of an assumed inflation factor of 2.5% on the costs of replacement items.

Actual expenditures may vary from the estimated amounts and variances 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. The Foundation does not manage or own any common property or equipment, and therefore its governing documents require no provision for future major repairs or replacements.

NOTE 13 – Revenue from contracts with customers

As described in Note 2, the Organization adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) as of January 1, 2019. In accordance with the guidance provided under topic 606, management has assessed each type of revenue generated by the Organization. Management has determined that revenue generated by membership dues and access card fees are subject to performance obligations that are satisfied ratably over the life of the contract. The contract terms are for a single calendar year and, as such, there is no outstanding performance obligation as of December 31, 2019. Revenue generated by the use of GVR property and facilities is subject to performance obligations satisfied by the passage a specified period not longer than one month. Revenue generated by advertising contracts and fees from instructional and entertainment activities create obligations that are satisfied by the performance of specific activities. Disaggregated revenue from contracts with customers and allocated performance obligations as of and for the year ended December 31, 2019 were as follows:

	Revenue recognized			Allocated performance obligations
	GVR	Foundation	Total	GVR
Recognized by:				
Point in time:				
New member fees	\$ 2,423,079	\$ -	\$ 2,423,079	\$ -
Late fees	90,012	-	90,012	-
The passage of time:				
Membership dues	6,712,673	-	6,712,673	4,331,532
Access card fees	777,911	-	777,911	20,440
Facility rental	72,017	-	72,017	5,338
Cell tower lease income	38,378	-	38,378	-
Performance activity:				
Program revenue	659,997	20,004	680,001	253,640
Advertising revenue	129,559	-	129,559	6,517
	<u>\$ 10,903,626</u>	<u>\$ 20,004</u>	<u>\$ 10,923,630</u>	<u>\$ 4,617,467</u>

For the year ended December 31, 2019, the Organization recognized \$1,435,933 in previously deferred revenue for member dues, program revenue, and access card fees. The Organization had no contract assets or contract liabilities at December 31, 2019.

**GREEN VALLEY RECREATION, INC.
AND GVR FOUNDATION**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2019

NOTE 14 – Prior period adjustment

The following errors were corrected during the year ended December 31, 2019:

	Net assets without donor restrictions			Net assets with donor restrictions	Total
	GVR	Foundation	Total	Foundation	
Net assets at December 31, 2018, as originally stated	\$ 27,187,296	\$ 67,039	\$ 27,254,335	\$ 178,716	\$ 27,433,051
Misclassification of board designated quasi-endowment	-	12,500	12,500	(12,500)	-
Understatement of deferred revenue	<u>68,098</u>	<u>-</u>	<u>68,098</u>	<u>-</u>	<u>68,098</u>
Net assets at December 31, 2018, as restated	<u>\$ 27,255,394</u>	<u>\$ 79,539</u>	<u>\$ 27,334,933</u>	<u>\$ 166,216</u>	<u>\$ 27,501,149</u>

NOTE 15 – Subsequent events

The Organization evaluated its December 31, 2019 annual financial statements through the date the financial statements were available to be issued. The negative impacts to social activities, the local economy and the financial markets resulting from the COVID-19 pandemic and public response will likely reduce public support and revenues across all categories other than membership dues, which are fixed based on the number of properties in membership area, in the following fiscal year. Currently, Congress is extending aid to small businesses and nonprofit organizations which could help mitigate the effects of this disruption. However, the uncertainty of the duration of this interruption and unclear scope of federal assistance prevents the Organization from estimating the scope and significance of the overall impact on subsequent periods.

Subsequent events have been evaluated through April 8, 2020, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

	Green Valley Recreation	GVR Foundation	Eliminated in consolidation	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,298,339	\$ 153,785	\$ -	\$ 4,452,124
Accounts receivable	172,435	-	(1,044)	171,391
Other receivables	-	11,233	(11,233)	-
Accrued interest	49,487	-	-	49,487
Investments	11,918,259	-	-	11,918,259
Beneficial interest in funds held at a community foundation	-	27,907	-	27,907
Prepaid expenses	313,753	-	-	313,753
Total current assets	16,752,273	192,925	(12,277)	16,932,921
Non-current assets -				
Property and equipment, net	17,670,198	-	-	17,670,198
	\$ 34,422,471	\$ 192,925	\$ (12,277)	\$ 34,603,119
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 302,955	\$ 10,066	\$ (1,044)	\$ 311,977
Accrued payroll and related taxes	180,181	-	-	180,181
Deferred membership dues	4,331,532	-	-	4,331,532
Deferred program revenue	285,935	-	-	285,935
Total current liabilities	5,100,603	10,066	(1,044)	5,109,625
Non-current liabilities -				
Custodial liabilities	11,233	9,450	(11,233)	9,450
Total liabilities	5,111,836	19,516	(12,277)	5,119,075
Net assets:				
Without donor restrictions:				
Undesignated available for operations	18,894,545	40,063	-	18,934,608
Board designated reserves for emergency operations	865,396	-	-	865,396
Board designated reserves for initiatives	2,465,305	-	-	2,465,305
Board designated reserves for repairs and replacements	7,085,389	-	-	7,085,389
Board designated quasi-endowment	-	12,500	-	12,500
	29,310,635	52,563	-	29,363,198
With donor restrictions				
Total net assets	-	120,846	-	120,846
	29,310,635	173,409	-	29,484,044
	\$ 34,422,471	\$ 192,925	\$ (12,277)	\$ 34,603,119

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	<u>Green Valley Recreation</u>	<u>GVR Foundation</u>		<u>Total</u>	<u>Eliminated in consolidation</u>	<u>Consolidated Total</u>
	<u>Net assets without donor restrictions</u>	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>			
Public support and revenues:						
Membership dues	\$ 6,712,673	\$ -	\$ -	\$ -	\$ -	\$ 6,712,673
New member capital and initial fees	2,423,079	-	-	-	-	2,423,079
Investment income	1,026,545	127	3,557	3,684	-	1,030,229
Access card fees	777,911	-	-	-	-	777,911
Program revenue	659,997	20,004	-	20,004	-	680,001
Contributions	-	4,264	218,348	222,612	-	222,612
In-kind contributions	359,387	-	-	-	(50,000)	309,387
Advertising revenue	129,559	-	-	-	-	129,559
Late fees	90,012	-	-	-	-	90,012
Facility rent revenue	72,017	-	-	-	-	72,017
Cell tower lease income	38,378	-	-	-	-	38,378
Other revenue	1,831	10,020	-	10,020	-	11,851
	<u>12,291,389</u>	<u>34,415</u>	<u>221,905</u>	<u>256,320</u>	<u>(50,000)</u>	<u>12,497,709</u>
Net assets released from restrictions	-	267,275	(267,275)	-	-	-
Total public support and revenues	<u>12,291,389</u>	<u>301,690</u>	<u>(45,370)</u>	<u>256,320</u>	<u>(50,000)</u>	<u>12,497,709</u>
Expenses:						
Program services	7,871,373	319,343	-	319,343	(50,000)	8,140,716
General and administrative	2,364,775	-	-	-	-	2,364,775
Fundraising	-	9,323	-	9,323	-	9,323
Total expenses	<u>10,236,148</u>	<u>328,666</u>	<u>-</u>	<u>328,666</u>	<u>(50,000)</u>	<u>10,514,814</u>
Change in net assets	2,055,241	(26,976)	(45,370)	(72,346)	-	1,982,895
Net assets, beginning of year, as restated	<u>27,255,394</u>	<u>79,539</u>	<u>166,216</u>	<u>245,755</u>	<u>-</u>	<u>27,501,149</u>
Net assets, end of year	<u>\$ 29,310,635</u>	<u>\$ 52,563</u>	<u>\$ 120,846</u>	<u>\$ 173,409</u>	<u>\$ -</u>	<u>\$ 29,484,044</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	<u>Green Valley Recreation</u>	<u>GVR Foundation</u>	<u>Eliminated in consolidation</u>	<u>Total</u>
Cash flows from operating activities:				
Change in net assets	\$ 2,055,241	\$ (72,346)	\$ -	\$ 1,982,895
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation and amortization	1,603,077	-	-	1,603,077
Donated property and equipment	(359,387)	-	50,000	(309,387)
Realized (gains) on investments	(196,209)	-	-	(196,209)
Unrealized (gains) on investments	(527,804)	-	-	(527,804)
Change in fair value of beneficial interest in funds	-	(3,557)	-	(3,557)
(Increase) decrease in operating assets:				
Accounts receivable	(75,415)	1,462	-	(73,953)
Other receivables	-	(11,233)	11,233	-
Accrued interest	(49,487)	-	-	(49,487)
Prepaid expenses	(105,881)	10,363	-	(95,518)
Increase (decrease) in operating liabilities:				
Accounts payable	155,630	7,785	-	163,415
Accrued payroll and related taxes	(13,124)	-	-	(13,124)
Deferred membership dues	3,156,063	-	-	3,156,063
Deferred program revenue	25,889	(1,280)	-	24,609
Custodial liabilities	9,766	5,800	(11,233)	4,333
Net cash provided by operating activities	<u>5,678,359</u>	<u>(63,006)</u>	<u>50,000</u>	<u>5,665,353</u>
Cash flows from investing activities:				
Purchases of property and equipment	(2,281,377)	-	(50,000)	(2,331,377)
Proceeds from sale of investments	11,801,326	-	-	11,801,326
Purchases of investments	<u>(14,246,348)</u>	<u>-</u>	<u>-</u>	<u>(14,246,348)</u>
Net cash (used in) investing activities	(4,726,399)	-	(50,000)	(4,776,399)
Change in cash and cash equivalents	951,960	(63,006)	-	888,954
Cash and cash equivalents, beginning of year	<u>3,346,379</u>	<u>216,791</u>	<u>-</u>	<u>3,563,170</u>
Cash and cash equivalents, end of year	<u>\$ 4,298,339</u>	<u>\$ 153,785</u>	<u>\$ -</u>	<u>\$ 4,452,124</u>
Cash available for operations	\$ 4,298,339	\$ 60,846	\$ -	\$ 4,359,185
Restricted cash	<u>-</u>	<u>92,939</u>	<u>-</u>	<u>92,939</u>
	<u>\$ 4,298,339</u>	<u>\$ 153,785</u>	<u>\$ -</u>	<u>\$ 4,452,124</u>

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