

GREEN VALLEY RECREATION, INC.

**AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

GREEN VALLEY RECREATION, INC.
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of Green Valley Recreation, Inc. (an Arizona nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Green Valley Recreation, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

HBL CPAs, P.C.

HBL CPAs, P.C.

March 30, 2021

GREEN VALLEY RECREATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

Current assets:	
Cash and cash equivalents:	
Held in deposit accounts	\$ 4,558,345
Held in investment brokerage accounts	<u>1,031,554</u>
	5,589,899
Accounts receivable	204,568
Accrued interest	40,408
Investments	11,260,923
Prepaid expenses	<u>267,187</u>
Total current assets	17,362,985
 Non-current assets -	
Property and equipment, net	<u>17,884,981</u>
 Total assets	 <u><u>\$ 35,247,966</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 281,163
Accrued payroll and related liabilities	432,848
Refundable capital fee liability	211,582
Custodial liabilities	17,631
Deferred membership dues	3,685,092
Deferred program and rental revenue	<u>43,933</u>
Total current liabilities	4,672,249
 Non-current liabilities -	
Non-current portion of compensation liability	<u>27,424</u>
Total liabilities	4,699,673
 Net assets without donor restrictions:	
Undesignated available for operations	20,530,782
Board designated reserves for emergency operations	978,488
Board designated reserves for initiatives	1,132,391
Board designated reserves for repairs and replacements	<u>7,906,632</u>
Total net assets without donor restrictions	<u>30,548,293</u>
	 <u><u>\$ 35,247,966</u></u>

GREEN VALLEY RECREATION, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Membership dues	\$ 6,748,910	\$ -	\$ 6,748,910
New member capital and initial fees	2,533,963	-	2,533,963
Investment income	839,357	-	839,357
Access card fees	611,398	-	611,398
Program revenue	378,573	-	378,573
In-kind contributions	-	63,913	63,913
Advertising revenue	122,893	-	122,893
Late fees	49,872	-	49,872
Facility rent revenue	28,427	-	28,427
Cell tower lease income	41,059	-	41,059
Other revenue	16	-	16
	<u>11,354,468</u>	<u>63,913</u>	<u>11,418,381</u>
Net assets released from restrictions	<u>423,300</u>	<u>(423,300)</u>	<u>-</u>
Total public support and revenues	11,777,768	(359,387)	11,418,381
Expenses:			
Program services	7,731,115	-	7,731,115
General and administrative	<u>2,449,608</u>	<u>-</u>	<u>2,449,608</u>
Total expenses	10,180,723	-	10,180,723
Change in net assets	1,597,045	(359,387)	1,237,658
Net assets, beginning of year, as restated	<u>28,951,248</u>	<u>359,387</u>	<u>29,310,635</u>
Net assets, end of year	<u>\$ 30,548,293</u>	<u>\$ -</u>	<u>\$ 30,548,293</u>

GREEN VALLEY RECREATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	<u>Program services</u>	<u>Supporting services - general and administrative</u>	<u>Total</u>
Salaries and wages	\$ 2,816,981	\$ 1,080,412	\$ 3,897,393
Employee related expenses	<u>892,215</u>	<u>324,127</u>	<u>1,216,342</u>
	3,709,196	1,404,539	5,113,735
Advertising	-	630	630
Bank and credit card fees	-	73,901	73,901
Catering	24,120	569	24,689
Communication	104,111	5,897	110,008
Computer expense	81,983	-	81,983
Depreciation	1,388,241	280,318	1,668,559
Dues and subscriptions	4,818	5,068	9,886
Employee training	17,850	12,178	30,028
Facility maintenance	452,302	13,711	466,013
Fees and taxes	18,899	15,982	34,881
Insurance	-	304,699	304,699
Investment fees	-	81,888	81,888
Miscellaneous	28,471	-	28,471
Professional services	92,066	119,153	211,219
Postage and printing	31,870	49,524	81,394
Recreation contracts	351,530	-	351,530
Rental expense	9,620	-	9,620
Repair and maintenance	299,982	-	299,982
Signage	20,254	-	20,254
Supplies	203,119	114,241	317,360
Travel	15,632	302	15,934
Utilities	719,908	-	719,908
Vehicles	66,385	-	66,385
Uncapitalized equipment	<u>90,758</u>	<u>48,896</u>	<u>139,654</u>
Total functional expenses	7,731,115	2,531,496	10,262,611
Less investment fees netted against revenues	<u>-</u>	<u>(81,888)</u>	<u>(81,888)</u>
Total expenses	<u>\$ 7,731,115</u>	<u>\$ 2,449,608</u>	<u>\$ 10,180,723</u>

GREEN VALLEY RECREATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

Cash flows from operating activities:	
Change in net assets	\$ 1,237,658
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	1,668,559
Donated property and equipment	(63,913)
Realized losses on investments	140,314
Unrealized (gains) on investments	(766,032)
(Increase) decrease in operating assets:	
Accounts receivable	(32,133)
Accrued interest	9,079
Prepaid expenses	46,566
Increase (decrease) in operating liabilities:	
Accounts payable	(21,792)
Accrued payroll and related liabilities	252,667
Refundable capital fee liability	211,582
Custodial liabilities	6,398
Deferred membership dues	(646,440)
Deferred program and rental revenue	(242,002)
Non-current compensation liability	<u>27,424</u>
Net cash provided by operating activities	1,827,935
Cash flows from investing activities:	
Purchases of property and equipment	(1,819,429)
Proceeds from sale of investments	8,343,669
Purchases of investments	<u>(7,060,615)</u>
Net cash (used in) investing activities	<u>(536,375)</u>
Change in cash and cash equivalents	1,291,560
Cash and cash equivalents, beginning of year	<u>4,298,339</u>
Cash and cash equivalents, end of year	<u>\$ 5,589,899</u>

Supplemental cash flow information:

No cash paid for income taxes or interest in 2020.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 address the recreational needs of 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 within 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 13,718 members as of December 31, 2020.

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.

NOTE 2 – Summary of significant accounting policies

Basis of presentation

The financial statements of GVR have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require GVR 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 GVR'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 GVR or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions and contributed goods and services

Unconditional contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Conditional contributions consist of contributions that contain a barrier to entitlement of the funds by the recipient, such as requirement to expend the funds for a specific purpose or program, or other requirements, and also contain a provision for return of the funds to the resource provider if the barriers are not overcome. Payments received for conditional contributions are recorded as a liability, reported in the statements of financial position as conditional contributions refundable, or are unrecognized initially, in the case of conditional promises to give, until the barriers to entitlement are overcome. At that point, the transaction is recognized as unconditional and classified as either net assets with donor restrictions or net assets without donor restrictions, based on the nature of the underlying transaction. At December 31, 2020, GVR had received no conditional contributions.

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the nature of the restrictions. When a restriction expires, that is, when funds are expended in accordance with donor restrictions, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

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.

Donated goods, facilities and services

Donated goods and facilities are valued at fair market value. Donated services are recognized in the financial statements at 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 GVR may utilize the services of outside volunteers, the fair value of these services has not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

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. GVR maintains its cash in bank deposit accounts which may exceed federally insured limits. Uninsured cash at December 31, 2020 was \$3,874,223.

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 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 collectibility 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.

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. Depreciation is calculated using the straight-line method over the estimated useful life of the asset.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 2 – Summary of significant accounting policies, continued

Property and equipment, continued

At formation, GVR was the beneficiary of infrastructure contributed by developers building in the community of Green Valley. Additional contributed property, plant, and equipment has been donated by clubs associated with GVR. 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.

Income tax status

GVR is exempt from Federal income tax under Section 501(c)(4) of the Internal Revenue Code. However, income from certain activities not directly related to the entity's tax-exempt purpose may be subject to taxation as unrelated business income.

In accordance with generally accepted accounting principles, GVR holds no uncertain tax positions and, therefore, has no policy for evaluating them. GVR'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 \$630 for the year ended December 31, 2020.

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 US GAAP. 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.

Refundable capital fee liability

Each time a home is purchased within the boundaries of GVR, a Property Acquisition Capital Fee (PACF) is charged to the buyer to fund future capital improvements and maintenance of GVR's recreational infrastructure. This fee is refundable if the buyer has also sold a home within GVR within the past year and applies for a fee waiver. Management estimates the total refunds that are likely to result from waivers within the next year using the historical ratio of waivers to home sales.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 2 – Summary of significant accounting policies, continued

New accounting pronouncements

The following accounting pronouncements were adopted on a retrospective basis during the year ended December 31, 2020, with no impact on previously stated net assets, by class or in total.

In January 2016, FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. FASB subsequently issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, ASU 2018-09, *Codification Improvements*, and ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. These subsequent updates further improve and clarify the guidance provided in ASU 2016-01. Collectively, this guidance expands the scope of fair value reporting for investments on the statement of financial position with changes included in the change in net assets on the statement of activities to include equity investments in partnerships, unincorporated joint ventures, and limited liabilities companies; collectively referred to as equity securities.

In August 2016, FAS issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of certain transactions in the statement of cash flows and reduces diversity in practice.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity in practice. The ASU also requires that amounts generally described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

In June 2018, FASB issued ASU 2018-18, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions by providing criteria for determining whether a resource provider is receiving commensurate value in return for resources transferred. The guidance makes clear that a resource provider, including a foundation or a government agency is not synonymous with the general public. The ASU also provides guidance for determining whether a contribution is conditional or unconditional.

NOTE 3 – Retirement plan

All GVR employees that are 20.5 years of age or older and have attained at least 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 \$107,316 for the year ended December 31, 2020.

NOTE 4 – 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 and cash equivalents, and as investments in marketable securities. 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 increased annual membership dues. Additionally, GVR may impose a special assessment, if such an assessment is approved in advance, by a majority of the members voting.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 4 – Liquidity and availability, continued

The following reflects GVR's financial assets, and limitations on those assets as of December 31, 2020, available for use for general expenditures within one year of the date of the statement of financial position:

Financial assets:	
Cash and cash equivalents	\$ 5,589,899
Accounts receivable	204,568
Accrued interest	40,408
Investments	<u>11,260,923</u>
	17,095,798
Less amounts unavailable due to Board designations:	
Emergency operations	978,488
Initiatives	1,132,391
Repairs and replacements	<u>7,906,632</u>
	<u>10,017,511</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 7,078,287</u></u>

NOTE 5 – Accounts receivable

Accounts receivable consisted of the following at December 31, 2020:

Accounts receivable	\$ 381,130
Less allowance for uncollectible accounts	<u>(176,562)</u>
	<u><u>\$ 204,568</u></u>

NOTE 6 – Fair value measurements, investments and investment income

Investment income consisted of the following for the year ended December 31, 2020:

Interest and dividends	\$ 295,527
Realized (losses)	(140,314)
Unrealized gains	766,032
Investment fees	<u>(81,888)</u>
	<u><u>\$ 839,357</u></u>

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 GVR's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are GVR'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 GVR'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. GVR does not utilize Level 3 inputs.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 6 – Fair value measurements, investments and investment income, continued

Fair values of assets measured on a recurring basis at December 31, 2020 were as follows:

Investments:	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds	\$ 4,752,570	\$ -	\$ 4,752,570
Mutual funds	3,055,287	-	3,055,287
Common stock	2,637,766	-	2,637,766
Government bonds	348,949	-	348,949
Certificates of deposit	247,270	-	247,270
Exchange traded funds	48,228	-	48,228
REITs	60,349	-	60,349
Small issue municipal bonds	-	110,504	110,504
	<u>\$ 11,150,419</u>	<u>\$ 110,504</u>	<u>\$ 11,260,923</u>

Activity related to assets measured at fair value on a recurring basis utilizing Level 2 inputs were as follows for the year ended December 31, 2020:

	<u>Beginning balance</u>	<u>Change in fair value</u>	<u>Sales and redemptions</u>	<u>Realized gains</u>	<u>Ending balance</u>
Small issue municipal bonds	\$ <u>261,887</u>	\$ <u>5,385</u>	\$ <u>(160,000)</u>	\$ <u>3,232</u>	\$ <u>110,504</u>

Assets held in the brokerage accounts, by type of asset and board designation, were as follows at December 31, 2020:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Accrued interest</u>	<u>Brokerage account total</u>
Board-designated net assets:				
Emergency	\$ 24,564	\$ 953,851	\$ 73	\$ 978,488
Initiatives	96,662	1,027,766	7,963	1,132,391
Repairs and replacements	358,215	7,516,188	32,229	7,906,632
Total board-designated	479,441	9,497,805	40,265	10,017,511
Undesignated - operations	552,113	1,763,118	143	2,315,374
	<u>\$ 1,031,554</u>	<u>\$ 11,260,923</u>	<u>\$ 40,408</u>	<u>\$ 12,332,885</u>

NOTE 7 – Property and equipment

Property and equipment consisted of the following at December 31, 2020:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,277	\$ 1,954,449	\$ 6,120,726
Buildings and improvements	12,852,422	12,171,439	25,023,861
Tennis, shuffleboard, and sports courts	324,958	1,990,766	2,315,724
Pools, spas, and equipment	412,588	2,744,674	3,157,262
Recreational equipment	230,841	1,219,914	1,450,755
Vehicles	-	800,858	800,858
Furniture and equipment	30,000	2,187,918	2,217,918
	18,017,086	23,070,018	41,087,104
Less accumulated depreciation	(10,074,576)	(13,512,621)	(23,587,197)
Construction in progress	-	385,074	385,074
	<u>\$ 7,942,510</u>	<u>\$ 9,942,471</u>	<u>\$ 17,884,981</u>

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 8 – 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 \$7,906,632 as of December 31, 2020. 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 August of 2020. The study concluded that the fully funded reserve balance at December 31, 2021 would be \$8,882,798 of which GVR had funded \$7,906,632 or 89% at December 31, 2020. The reserve study is based on a recommended annual contribution of \$1,048,192 for 2021 to the replacement reserve, to be increased annually at a rate of 4.2%, 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 or to delay major repairs and replacements until funds are available. Additionally, GVR may impose a special assessment, if such an assessment is approved in advance, by a majority of the members voting.

NOTE 9 – Change in reporting entity

In 2014, GVR formed the Green Valley Recreation Foundation (the Foundation) to support the Foundation’s Member Assistance Program (MAP) through which eligible members can seek assistance in paying annual membership dues. The Foundation’s by-laws required GVR’s board of directors to exercise influence over the Foundation adequate to require consolidation with GVR as a single reporting entity in accordance with U.S. generally accepted accounting principles (US GAAP). During the year ended December 31, 2020, GVR agreed to allow the board of directors of the Foundation to amend the by-laws removing the elements of control that necessitated consolidation.

As of and for the year ended December 31, 2020, the assets, liabilities, equity, and activity of the Foundation have not been reported in the financial statements of GVR as a result of the deconsolidation. Net assets for GVR in total at December 31, 2019 were not affected by the change in reporting entity. Consolidated net assets at December 31, 2019 by entity were as follows:

	Green Valley Recreation	GVR Foundation	Consolidated total
Net assets at December 31, 2019	\$ 29,310,635	\$ 173,409	\$ 29,484,044

See Note 16 for change in net assets by class as of December 31, 2019 for GVR. That change was due to an error in the prior year in classification of in-kind contributions for the Pickleball courts, and was unrelated to the change in reporting entity.

NOTE 10 – 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. During the year ended December 31, 2020, GVR received in-kind revenue totaling \$63,913 in contractor services from the GVR Pickleball Club to complete the Kent J. Blumenthal Pickleball Complex.

During the year ended December 31, 2020, the Foundation’s Member Assistance Program provided \$28,594 to GVR for membership dues. The Foundation was an entity under common control until 2020.

GREEN VALLEY RECREATION, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2020

NOTE 11 – Revenue from contracts with customers

Management has assessed recognition of each type of revenue generated by GVR, as described below.

Recognized at a point in time

New member capital and initial fees are recognized at the time that a property is purchased (see Note 8), and late fees are recognized when the related fees are determined to be overdue.

Recognized through the passage of time

Management has determined that revenue from 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 are no outstanding performance obligations as of December 31, 2020 for 2020 membership dues. Outstanding performance obligations at December 31, 2020 represent amounts collected in advance for 2021 membership dues.

Revenue generated by the use of GVR property and facilities is subject to performance obligations satisfied by the passage of a specified period not longer than one month.

Recognized through performance of activities

Revenue generated by advertising contracts and fees from instructional and entertainment activities create obligations that are satisfied by the performance of specific activities.

During the year ended December 31, 2020, GVR recognized \$4,581,658 in previously deferred revenue for member dues, program revenue, and access card fees.

GVR had no contract assets at December 31, 2020. In addition, although there are no outstanding performance obligations related to new member capital and initial fees, GVR has recorded a liability for estimated refunds of these fees totaling \$211,582 at December 31, 2020. See Note 15.

Disaggregated revenue from contracts with customers and allocated performance obligations as of and for the year ended December 31, 2020 was as follows:

Recognized by:	<u>Revenue recognized</u>	<u>Outstanding performance obligations</u>
Point in time:		
New member capital and initial fees	\$ 2,533,963	\$ -
Late fees	49,872	-
The passage of time:		
Membership dues	6,748,910	3,685,092
Access card fees	611,398	-
Facility rental	28,427	538
Cell tower lease income	41,059	-
Performance activity:		
Program revenue	378,573	43,396
Advertising revenue	122,893	-
	<u>\$ 10,515,095</u>	<u>\$ 3,729,026</u>

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NOTE 12 – Operating leases

GVR leases office equipment and a mobile storage unit under non-cancelable operating leases. Rental expense for the year ended December 31, 2020 was \$45,269 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,	2021	\$	54,014
	2022		53,704
	2023		46,929
	2024		24,634
	2025		14,256
		\$	<u>193,537</u>

NOTE 13 – Board-designated net assets

The board of directors for GVR has designated portions of total net assets without donor restrictions to be used for emergency funding of operations, replacement and repair of major capital assets, and new projects. Activity in board designated net assets was as follows for the year ended December 31, 2020:

	<u>Emergency</u>	<u>Initiatives</u>	<u>Repairs and replacements</u>	<u>Total</u>
Beginning balance	\$ 865,396	\$ 2,465,305	\$ 7,085,389	\$ 10,416,090
Board designations:				
Capital fees	-	512,375	1,005,942	1,518,317
Other designations	-	-	34,040	34,040
Expended for projects	(15,000)	(1,940,702)	(975,885)	(2,931,587)
Investment income	128,086	103,649	754,864	986,599
Change in accrued interest	6	(8,236)	2,282	(5,948)
Ending balance	<u>\$ 978,488</u>	<u>\$ 1,132,391</u>	<u>\$ 7,906,632</u>	<u>\$ 10,017,511</u>

NOTE 14 – Net assets with donor restrictions

Activity in net assets with donor restrictions for the year ended December 31, 2020, and balances of net assets with donor restrictions as of the year then ended, were as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Subject to purpose restrictions -				
Pickleball center	<u>\$ 359,387</u>	<u>\$ 63,913</u>	<u>\$ (423,300)</u>	<u>\$ -</u>

NOTE 15 – Refundable capital fee liability

GVR requires that those who purchase property within the boundaries of GVR pay a capital fee for the ongoing improvement and maintenance of the facilities and infrastructure. The Property Acquisition Capital Fee (PACF) is due on each purchase at the close of escrow. This fee is refundable if the buyer has also sold a home within GVR within the past year and applies for a fee waiver. Management estimates the obligation for fees that will be subject to a valid waiver using the historic rate of refunds to total fees received. For the year ended December 31, 2020, GVR recognized revenue from the PACF totaling \$2,411,952 net of the change in the estimated obligation for refundable fees of \$211,582 as of December 31, 2020 and \$230,208 in fees actually refunded during the year then ended.

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NOTE 16 – Prior period adjustment and in-kind contributions

In-kind contributions received during the year ended December 31, 2019 for the pickleball courts were originally reported as increases in net assets without donor restrictions, although the related asset had not been placed into service as of December 31, 2020. US GAAP requires that contributions of long-lived assets and cash to construct or acquire long-lived assets be recorded as increases in net assets with donor restrictions and released at the time that the asset is placed into service. Net assets as of December 31, 2019 were reclassified during the year ended December 31, 2020 as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Net assets at December 31, 2019, as originally stated	\$ 29,310,635	\$ -	\$ 29,310,635
Reclassification of in-kind contributions	<u>(359,387)</u>	<u>359,387</u>	<u>-</u>
Net assets at December 31, 2019, as restated	<u>\$ 28,951,248</u>	<u>\$ 359,387</u>	<u>\$ 29,310,635</u>

In-kind contributions received during the year ended December 31, 2020 consisted of payments made directly to the contractor constructing the pickleball courts by GVR Pickleball Club and were included as increases in property and equipment as of that year end. All net assets with donor restrictions for the pickleball courts were released and reclassified to net assets without donor restrictions during the year ended December 31, 2020 when the asset was placed into service. See Note 14.

NOTE 17 – Subsequent events

Subsequent events have been evaluated through March 30, 2021, which is 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. However, the uncertainty of the duration of this interruption and the results of current vaccination efforts prevent GVR from estimating the scope and significance of the overall impact on subsequent periods.