

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

**Combined Financial Statements
December 31, 2016 and 2015**

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February 3, 2017

**Green Valley Recreation, Inc. and
GVR Foundation
December 31, 2016 and 2015**

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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. (GVR) and GVR Foundation, Arizona nonprofit corporations, which comprise the combined statements of financial position as of December 31, 2016 and 2015 and the related combined statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the combined 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 audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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 GVR and GVR Foundation as of December 31, 2016 and 2015 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information on Reserve Study

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

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

Tucson, Arizona
February 3, 2017

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

	ASSETS		
	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CURRENT ASSETS			
Cash and cash equivalents-Unrestricted	\$ 3,748,918	\$ 110,229	\$ 3,859,147
Cash and cash equivalents-Board Designated	434,719		434,719
Dues assessments and miscellaneous receivables, net of allowance for bad debts of \$128,000	94,145		94,145
Inter-entity receivable (payable)	(5,345)	5,345	
Prepaid expenses	155,699		155,699
Investments-Board designated	2,610,628		2,610,628
Interest receivable	4,954		4,954
Total Current Assets	<u>7,043,718</u>	<u>115,574</u>	<u>7,159,292</u>
LONG-TERM ASSETS			
Property and equipment, net of accumulated depreciation	16,348,308		16,348,308
Investments-Board designated	4,760,452		4,760,452
Total long-term assets	<u>21,108,760</u>		<u>21,108,760</u>
Total Assets	<u>\$ 28,152,478</u>	<u>\$ 115,574</u>	<u>\$ 28,268,052</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 142,511		\$ 142,511
Accrued expenses	156,474		156,474
Deferred revenue	3,106,536	\$ 4,200	3,110,736
Total Current Liabilities	3,405,521	4,200	3,409,721
NET ASSETS			
Unrestricted net assets	16,814,509	50,949	16,865,458
Temporarily restricted net assets		60,425	60,425
Board designated net assets-Reserves for operations	789,899		789,899
Board designated net assets-Reserves for capital replacements	5,137,266		5,137,266
Board designated net assets-Reserves for initiatives	2,005,283		2,005,283
Total Net Assets	<u>24,746,957</u>	<u>111,374</u>	<u>24,858,331</u>
Total Liabilities and Net Assets	<u>\$ 28,152,478</u>	<u>\$ 115,574</u>	<u>\$ 28,268,052</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, 2015

	ASSETS		
	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CURRENT ASSETS			
Cash and cash equivalents-Unrestricted	\$ 4,800,690	\$ 34,430	\$ 4,835,120
Cash and cash equivalents-Board Designated	3,504,692		3,504,692
Dues assessments and miscellaneous receivables, net of allowance for bad debts of \$104,000	49,460		49,460
Inter-entity receivable (payable)	17,500	(17,500)	
Prepaid expenses	152,116		152,116
Certificates of deposit-Board designated	3,982,808		3,982,808
Interest receivable	4,535		4,535
Total Current Assets	<u>12,511,801</u>	<u>16,930</u>	<u>12,528,731</u>
LONG-TERM ASSETS			
Property and equipment, net of accumulated depreciation	16,260,524		16,260,524
Total long-term assets	<u>16,260,524</u>		<u>16,260,524</u>
Total Assets	<u>\$ 28,772,325</u>	<u>\$ 16,930</u>	<u>\$ 28,789,255</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 143,726		\$ 143,726
Accrued expenses	130,064		130,064
Deferred revenue	<u>4,774,129</u>		<u>4,774,129</u>
Total Current Liabilities	<u>5,047,919</u>		<u>5,047,919</u>
NET ASSETS			
Unrestricted net assets	16,236,906	\$ 16,930	16,253,836
Board designated net assets-Reserves for operations	789,366		789,366
Board designated net assets-Reserves for capital replacements	4,628,289		4,628,289
Board designated net assets-Reserves for initiatives	<u>2,069,845</u>		<u>2,069,845</u>
Total Net Assets	<u>23,724,406</u>	<u>16,930</u>	<u>23,741,336</u>
Total Liabilities and Net Assets	<u>\$ 28,772,325</u>	<u>\$ 16,930</u>	<u>\$ 28,789,255</u>

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

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

	<u>Green Valley Recreation, Inc.</u>	<u>GVR Foundation</u>	<u>Combined Totals</u>
CHANGES IN UNRESTRICTED NET ASSETS			
Operating revenues, gains and other support:			
Membership dues	\$ 6,402,286		\$ 6,402,286
New capital fees	2,007,135		2,007,135
Other fees	634,073		634,073
Programs	361,053	\$ 20,683	381,736
Instructional	388,904		388,904
Investment interest, dividends and net realized capital gains	158,166		158,166
Rooms and cell tower rentals	84,150		84,150
Donations, net		15,943	15,943
Other	50,171	2,724	52,895
Total unrestricted operating revenues, gains and other support	<u>10,085,938</u>	<u>39,350</u>	<u>10,125,288</u>
Communications and technology	119,990		119,990
Contract services	721,166	1,728	722,894
Depreciation	1,293,504		1,293,504
Fees, taxes, and permits	75,749	1,131	76,880
Food	36,950	575	37,525
Insurance	184,153	500	184,653
Miscellaneous	38,829		38,829
Personnel/volunteer costs	4,258,859		4,258,859
Postage and printing	76,103	1,293	77,396
Professional services	293,731	33	293,764
Repairs and maintenance	610,367		610,367
Small equipment and furnishings	138,873		138,873
Supplies	256,288	71	256,359
Utilities and waste management	840,023		840,023
Total Operating Expenses	<u>8,944,585</u>	<u>5,331</u>	<u>8,949,916</u>
Net changes in Unrestricted Net Assets From Operations	<u>1,141,353</u>	<u>34,019</u>	<u>1,175,372</u>
Other Changes:			
Unrealized losses in fair market value of investments	(118,802)		(118,802)
Net changes in Unrestricted Net Assets	<u>1,022,551</u>	<u>34,019</u>	<u>1,056,570</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Donations and grants, net		43,925	43,925
Programs		16,500	16,500
Net changes in Temporarily Restricted Net Assets		<u>60,425</u>	<u>60,425</u>
Net changes in Net Assets	<u>1,022,551</u>	<u>94,444</u>	<u>1,116,995</u>
NET ASSETS, BEGINNING OF YEAR	<u>23,724,406</u>	<u>16,930</u>	<u>23,741,336</u>
NET ASSETS, END OF YEAR	<u>\$ 24,746,957</u>	<u>\$ 111,374</u>	<u>\$ 24,858,331</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, 2015

CHANGES IN UNRESTRICTED NET ASSETS	<u>Green Valley Recreation, Inc.</u>	<u>GVR Foundation</u>	<u>Combined Totals</u>
Revenues:			
Membership dues	\$ 6,000,905		6,000,905
Fees	2,216,967		
Programs	359,598		
Instructional	371,014		371,014
Investment	28,206		28,206
Rooms and cell tower rentals	51,443		51,443
Insurance claim on property	75,000		75,000
Donations		\$ 22,556	22,556
Other	18,692		18,692
Total Unrestricted Revenues	<u>9,121,825</u>	<u>22,556</u>	<u>9,144,381</u>
Expenses:			
Communications and technology	137,886		137,886
Contract services	541,441		541,441
Depreciation	1,273,006		1,273,006
Fees, taxes, and permits	24,966	227	25,193
Food	37,051	110	37,161
Insurance	192,806	950	193,756
Miscellaneous	80,629	90	80,719
Personnel/volunteer costs	3,813,465	2,500	3,815,965
Postage and printing	82,396	450	82,846
Professional services	120,355	1,200	121,555
Repairs and maintenance	501,501		501,501
Small equipment and furnishings	119,808		119,808
Supplies	271,122	99	271,221
Utilities and waste management	875,750		875,750
Total Expenses	<u>8,072,182</u>	<u>5,626</u>	<u>8,077,808</u>
Net changes in Net Assets	1,049,643	16,930	1,066,573
NET ASSETS, BEGINNING OF YEAR	<u>22,674,763</u>		<u>22,674,763</u>
NET ASSETS, END OF YEAR	<u>\$ 23,724,406</u>	<u>\$ 16,930</u>	<u>\$ 23,741,336</u>

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

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

	Green Valley Recreation, Inc.	GVR Foundation	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 1,022,551	\$ 94,444	\$ 1,116,995
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:			
Depreciation	1,293,504		1,293,504
Allowance for doubtful accounts	24,000		24,000
Unrealized losses in fair market value of investments	118,802		118,802
Changes in operating assets and liabilities:			-
(Increase) in dues assessments receivables	(68,685)		(68,685)
Decrease (increase) in inter-entity receivables (payables)	22,845	(22,845)	-
(Increase) in interest receivables	(419)		(419)
(Increase) in prepaid expenses	(3,583)		(3,583)
(Decrease) in accounts payable	(1,215)		(1,215)
Increase in accrued expenses	26,410		26,410
Increase (decrease) in deferred revenue	(1,667,593)	4,200	(1,663,393)
Net Cash Provided By Operating Activities	<u>766,617</u>	<u>75,799</u>	<u>842,416</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,381,288)		(1,381,288)
Proceeds from sales of certificates of deposit	3,982,808		3,982,808
Purchases of investments	(7,489,882)		(7,489,882)
Net Cash (Used For) Provided By Investing Activities	<u>(4,888,362)</u>		<u>(4,888,362)</u>
Net Increase in Cash and Cash Equivalents	(4,121,745)	75,799	(4,045,946)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>8,305,382</u>	<u>34,430</u>	<u>8,339,812</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,183,637</u>	<u>\$ 110,229</u>	<u>\$ 4,293,866</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, 2015

	Green Valley	GVR	Combined
CASH FLOWS FROM OPERATING ACTIVITIES	<u>Recreation, Inc.</u>	<u>Foundation</u>	<u>Totals</u>
Increase in net assets	\$ 1,049,643	\$ 16,930	\$ 1,066,573
Adjustments to reconcile the change in net assets to net cash provided by (used for) operating activities:			
Depreciation	1,273,006		1,273,006
Allowance for doubtful accounts	6,000		6,000
Changes in operating assets and liabilities:			-
(Increase) decrease in dues assessments receivables	7,521	17,500	25,021
(Increase) in interest receivables	(385)		(385)
(Increase) in prepaid expenses	(33,816)		(33,816)
Increase in accounts payable	21,767		21,767
(Decrease) increase in accrued expenses	10,075		10,075
Increase in deferred revenue	342,556		342,556
Net Cash Provided By Operating Activities	<u>2,676,367</u>	<u>34,430</u>	<u>2,710,797</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(542,051)		(542,051)
Purchases of certificates of deposit	(3,982,808)		(3,982,808)
Proceeds from sales of certificates of deposit	5,231,108		5,231,108
Net Cash (Used For) Provided By Investing Activities	<u>706,249</u>		<u>706,249</u>
Net Increase in Cash and Cash Equivalents	3,382,616	34,430	3,417,046
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>4,922,766</u>		<u>4,922,766</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,305,382</u>	<u>\$ 34,430</u>	<u>\$ 8,339,812</u>
SUPPLEMENTAL DISCLOSURES			
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

GREEN VALLEY RECREATION, INC. AND GVR FOUNDATION
COMBINED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Reserves for Operations</u>	<u>Reserves for Capital Replacements</u>	<u>Reserves for Initiatives</u>	<u>Totals</u>
NET ASSETS, December 31, 2014	\$18,674,763		\$539,366	\$1,952,001	\$1,508,633	\$22,674,763
Net change in net assets	1,066,573					1,066,573
Allocated to reserves:						
Assessments	(3,412,500)		250,000	2,601,288	561,212	
Insurance claim settlement	(75,000)			75,000		
NET ASSETS, December 31, 2015	16,253,836		789,366	4,628,289	2,069,845	23,741,336
Net change in net assets-GVR	1,022,551					1,022,551
Net change in net assets-GVR Foundation	34,019	\$60,425				94,444
Transfers between unrestricted and reserves:						
Assessments	(900,000)			900,000		
Investment income	(87,787)		17,772	48,577	21,438	
Other expenses	17,239		(17,239)			
Repairs and replacements	525,600			(439,600)	(86,000)	
NET ASSETS, December 31, 2016	<u>\$16,865,458</u>	<u>\$60,425</u>	<u>\$789,899</u>	<u>\$5,137,266</u>	<u>\$2,005,283</u>	<u>\$24,858,331</u>

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, 2016 and 2015

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 13,504 and 13,461 member properties as of December 31, 2016 and 2015, 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 whereby eligible financially struggling members can potentially have their annual assessments paid for them. In 2016 the GVR Foundation commenced the administration of GVR's Senior Games.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Presentation of Combined Financial Statements The GVR Foundation currently relies on GVR economically for many of its otherwise incurred overhead costs and GVR's CEO also serves on the Board and is an Officer of the GVR Foundation. 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.

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

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Membership Income, Receivables, and Deferred Revenues Annual membership dues were \$475 and \$450 in 2016 and 2015, 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 Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets and Board Designated Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of GVR 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 operating reserve, capital replacement, and initiatives and innovation reserves.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. As of December 31, 2016 and 2015, respectively, there were no such assets held by GVR, however in 2016 the GVR Foundation commenced receiving such donations.

Permanently Restricted Net Assets

Permanently restricted net assets include contributed net assets that require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for program operations. GVR and GVR Foundation had no such assets as of December 31, 2016 and 2015.

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, 2016 and 2015, respectively.

Advertising Advertising costs are expensed as incurred.

Income Taxes – GVR and GVR Foundation are exempt from federal and state income taxes as to their exempt function activities under Internal Revenue Code Section 501(c)(4) and 501(c)(3), respectively, and are not classified as private foundations. Their management believes that all of the various tax positions that have been taken would be sustained under an audit by any taxing jurisdiction. The statute of limitations for being subject to audits is generally four years.

NOTE 3 – CONCENTRATIONS OF MARKET AND CREDIT RISK

Cash balances of \$2,305,931 and \$3,419,811 at a financial institution were federally uninsured as of December 31, 2016 and 2015, respectively. The uninsured balances resulted from large dues collections at the end of the years and the excess balances were reinvested early in 2017 and 2016. GVR has market risk for its receivables as they mostly relate to residents and others all located in the Southern Arizona area.

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2016 and 2015

NOTE 4- BOARD DESIGNATED INVESTMENTS AND FAIR VALUE MEASUREMENTS

Commencing in 2016 GVR engaged a professional investment advisor who recommended a broad-based investment strategy for GVR detailed below. Previously GVR held all of its investments in short-term certificates of deposits. GAAP requires that entities use a three-level hierarchy to prioritize the inputs used to measure fair value, and maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Level 1 of the hierarchy utilizes quoted prices for identical assets in active markets to which GVR had access at the measurement date. Level 2 would utilize quoted prices for similar assets in active markets or identical assets in inactive markets. Level 3 utilizes unobservable inputs for an asset's fair value measurement. Since GVR has ready access to quoted prices from an active market for its investments, it utilizes level 1 inputs to measure their fair value. Only the certificates of deposit are federally insured.

Board designated investments, all recorded at fair market value at level 1 fair value hierarchy, were as follows as of December 31, 2016:

<u>Short Term</u>	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gains (Loss)</u>
Investing exchange traded and closed end funds	\$429,585	\$451,310	\$ 21,725
Investing mutual funds	365,845	374,766	8,921
Held-to-maturity certificates of deposit	1,063,000	1,061,785	(1,215)
Investing stocks	479,331	512,749	33,418
	<u>\$2,337,761</u>	<u>\$2,400,610</u>	<u>\$ 62,849</u>

<u>Long Term</u>	<u>Cost</u>	<u>FMV</u>	<u>Unrealized Gains (Loss)</u>
Held-to-maturity certificates of deposit	\$1,300,845	\$1,292,678	\$ (8,167)
Held-to-maturity municipal bonds	1,228,760	1,136,643	(92,117)
Held-to-maturity corporate bonds	1,851,544	1,799,222	(52,322)
Held-to-maturity government and agency securities	770,972	741,927	(29,045)
	<u>\$5,152,121</u>	<u>\$4,970,470</u>	<u>\$ (181,651)</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

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

Green Valley Recreation, Inc. and GVR Foundation
Notes to Combined Financial Statements
December 31, 2016 and 2015

NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Property and equipment consisted of the following at December 31, 2015:

	<u>Contributed</u>	<u>Purchased</u>	<u>Total</u>
Land and improvements	\$ 4,166,276	\$ 1,599,235	\$ 5,765,511
Buildings and improvements	12,429,122	7,876,253	20,305,375
Tennis, shuffleboard and sports courts	324,958	1,289,815	1,614,773
Pools, spas and equipment	412,588	1,482,167	1,894,755
Recreational equipment	230,841	660,599	891,440
Vehicles		335,466	335,466
Furnishings and equipment	30,000	1,600,426	1,600,426
Projects in progress		141,572	141,572
	<u>17,593,785</u>	<u>14,985,533</u>	<u>32,579,318</u>
Less accumulated depreciation	<u>(8,484,963)</u>	<u>(7,833,831)</u>	<u>(16,318,794)</u>
	<u>\$ 9,108,822</u>	<u>\$ 7,151,702</u>	<u>\$16,260,524</u>

Depreciation expense was \$1,293,504 and \$1,273,006 for the years ended December 31, 2016 and 2015, respectively.

NOTE 6 – DEFERRED REVENUE

Deferred revenue consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dues received in advance	\$ 2,818,640	\$ 4,487,688
Other- future events and classes	292,096	286,441
	<u>\$ 3,110,736</u>	<u>\$ 4,774,129</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

The GVR Foundations' temporarily restricted net assets are restricted by a \$44,000 grant from the Freeport-McMoran Foundation for a website under development to promote living in the Green Valley area. The remaining net assets are donor temporarily restricted for Senior Games future support.

NOTE 8 – LEASE COMMITMENTS

GVR has entered into several office equipment operating lease agreements that currently require minimum monthly lease payments of \$3,787 plus monthly copying charges and have the following minimum lease payments required for each of the years ended December 31 as follows:

2017	\$ 43,983
2018	41,949
2019	41,949
2020	41,949
2021	<u>17,479</u>
	<u>\$ 187,309</u>

Green Valley Recreation, Inc. and GVR Foundation
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NOTE 8 – LEASE COMMITMENTS (Continued)

Total equipment lease expense was \$47,721 and \$49,661 for the years ended December 31, 2016 and 2015, respectively.

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

NOTE 9- 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 \$101,972 and \$89,819 for the years ended December 31, 2016 and 2015, respectively.

NOTE 10- 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 11- FUNCTIONAL EXPENSE ALLOCATION

Expenses as summarized by category in the accompanying Combined Statements of Activities are classified by major functional activity as follows for the years ended December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Program services	\$6,973,571	\$6,243,371
Fundraising	39,527	29,165
Management and general	1,936,818	1,805,272
	<u>\$ 8,949,916</u>	<u>\$ 8,077,808</u>

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

NOTE 12 – LITIGATION

GVR is a defendant in an employment related suit which is being handled by an attorney retained by GVR’s insurance carrier. It is not reasonably possible at this time to predict the outcome of this matter and what effect, if any, there will be to GVR’s finances beyond insurance limits.

Green Valley Recreation, Inc. and GVR Foundation
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NOTE 13- FUTURE MAJOR REPAIRS AND REPLACEMENTS

GVR's governing documents allow for funds to be accumulated for future major repairs and replacements. The capital replacement reserves aggregated \$5,137,266 and \$4,628,289 as of December 31, 2016 and 2015, 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 to determine this information most recently. The company's conclusion was that an optimal fully funded reserve balance would be \$5,511,254 as of December 31, 2016, subsequently increased to \$5,810,467 as of December 31, 2017, of which GVR had funded \$5,137,266 or 93.2% as of December 31, 2016. The reserve study is based on a recommended \$914,400 annual contribution for 2017 to the capital replacement reserve, to be increased annually at 1.6%, and a 2.5% inflation factor on the costs of the replacement items.

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

NOTE 14 – SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated through February 3, 2017, the date audit fieldwork was completed. Events occurring after that date have not been evaluated to determine whether a change to the financial statements would be required. A subsequent event noted was that early in 2017 GVR entered into a \$460,000 contract to purchase a building on approximately two acres adjacent to the West Center for the purpose of housing the maintenance and repair department and its various supplies.

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, 2016

(Unaudited)

GVR's Board of Directors, in conjunction with an outside hired expert company, conducted a full study in June 2016 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 \$76,200 per month in 2017 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 July 1, 2016 on its website www.gvrec.org.