



AGENDA

Audit Committee
Monday, April 22, 2024
11:00am – 12:30pm MST
West Center Room 2 / Zoom

GVR's Mission Statement: "To provide excellent facilities and services that create opportunities for recreation, social activities, and leisure education to enhance the quality of our members' lives."

Committee: Nancy Austin (Chair), Peggy Adelman, Bert Olson, Gail Vanderhoof, Scott Somers (CEO), David Webster (CFO/Liaison)

Guests: Mark Kelley and Dale Sprinkle

Agenda Topic

1. **Call to Order / Roll Call - Establish Quorum**
2. **Chair Comments**
3. **Business**
 - a. 2023 Draft Audit
 - b. 2023 Management Letter
4. **Member comments**
5. **Adjournment**

Next Meeting: TBD

R&A CPAs

A PROFESSIONAL CORPORATION

GREEN VALLEY
RECREATION, INC.

(A NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2023
AND 2022

CONTENTS

Independent Auditors' Report.....	1
Statements of Financial Position as of December 31, 2023 and 2022.....	3
Statement of Activities for the Year Ended December 31, 2023	4
Statement of Activities for the Year Ended December 31, 2022	5
Statement of Functional Expenses for the Year Ended December 31, 2023	6
Statement of Functional Expenses for the Year Ended December 31, 2022	7
Statements of Cash Flows for the Years Ended December 31, 2023 and 2022.....	8
Notes to Financial Statements	9
Note A. Summary of Significant Accounting Policies.....	9
Note B. Accounts Receivable	14
Note C. Investment in Marketable Securities	14
Note D. Liquidity and Availability of Financial Assets.....	16
Note E. Operating and Finance Leases.....	17
Note F. Property and Equipment	17
Note G. Refundable Capital Fee Liability.....	18
Note H. Notes Payable and Deferred Lease Revenue.....	18
Note I. Board Designated Net Assets	19
Note J. Net Assets with Donor Restrictions.....	20
Note K. Revenue from Contracts with Customers.....	20
Note L. Future Major Repairs and Replacements.....	21
Note M. Retirement Plan	21
Note N. Related Party Transactions	21
Note O. Contingencies	22
Note P. Subsequent Events.....	22

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Green Valley Recreation, Inc.
Tucson, Arizona

Opinion

We have audited the financial statements of Green Valley Recreation, Inc. ("GVR") (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GVR as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of GVR and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about GVR's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 GVR's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the GVR's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter – Adoption of New Accounting Pronouncements

As discussed in Note A to the financial statements, GVR adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-03, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

A Professional Corporation

Tucson, Arizona
March XX, 2024

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2023 AND 2022

ASSETS	2023	2022
CURRENT ASSETS:		
<i>Cash and cash equivalents:</i>		
Held in deposit accounts	\$ 2,532,556	\$ 1,866,102
Held in investment brokerage accounts	311,366	1,085,294
Total cash and cash equivalents	2,843,922	2,951,396
Investment in marketable securities	13,456,529	14,484,638
Accounts receivable, net	301,605	49,711
Interest receivable	59,621	63,434
Supply and maintenance inventory	22,003	23,044
Prepaid expenses	279,134	275,961
Total current assets	16,962,814	17,848,184
LONG-TERM ASSETS:		
Property and equipment, net	21,443,511	19,177,114
Operating lease right-of-use assets, net of accumulated amortization of \$0 and \$1,303, respectively	-	467
Finance lease right-of-use assets, net of accumulated amortization of \$113,193 and \$104,829, respectively	72,483	111,355
Total long-term assets	21,515,994	19,288,936
TOTAL ASSETS	\$ 38,478,808	\$ 37,137,120
LIABILITIES AND NET ASSETS		
<i>Current liabilities:</i>		
Accounts payable	\$ 486,137	\$ 316,061
Accrued payroll and related liabilities	247,953	281,817
Refundable capital fee liability	212,826	202,757
Other liabilities	104,067	104,376
Deferred membership dues	4,357,257	4,554,800
Deferred program and rental revenue	176,499	130,021
Deferred lease revenue - current portion	4,000	4,000
Note payable - current portion	11,000	11,000
Operating lease liabilities, current portion	-	439
Finance lease liabilities, current portion	40,307	39,319
Total current liabilities	5,640,046	5,644,590
<i>Long-term liabilities:</i>		
Deferred lease revenue, net of current portion	46,667	50,667
Note payable, net of current portion	66,000	77,000
Finance lease liabilities, net of current portion	43,954	84,261
Total long-term liabilities	156,621	211,928
TOTAL LIABILITIES	5,796,667	5,856,518
NET ASSETS:		
<i>Net assets without donor restrictions:</i>		
Undesignated available for operations	22,325,170	20,580,765
Board designated reserves for emergency operations	561,557	491,242
Board designated reserves for initiatives	1,760,779	2,546,589
Board designated reserves for repairs and replacements	8,034,635	7,662,006
Total net assets without donor restrictions	32,682,141	31,280,602
TOTAL NET ASSETS	32,682,141	31,280,602
TOTAL LIABILITIES AND NET ASSETS	\$ 38,478,808	\$ 37,137,120

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2023

	Without donor restrictions	With donor restrictions	Total
STATEMENT OF ACTIVITIES, 2023			
<i>PUBLIC SUPPORT AND REVENUES:</i>			
Membership dues	\$ 7,051,930	\$ -	\$ 7,051,930
New member capital and initial fees	3,234,560	-	3,234,560
Member, tenant, and guest fees	259,344	-	259,344
Program revenue	514,095	-	514,095
Lease income	51,478	-	51,478
Late fees	70,281	-	70,281
Facility rent revenue	16,822	-	16,822
<i>Total public support and revenues</i>	11,198,510	-	11,198,510
<i>EXPENSES:</i>			
Program services	8,547,789	-	8,547,789
General and administrative	2,380,249	-	2,380,249
<i>Total expenses</i>	10,928,038	-	10,928,038
<i>OTHER INCOME (EXPENSE):</i>			
Investment income (loss)	1,117,943	-	1,117,943
Other income	14,545	-	14,545
Loss on disposal of property and equipment	(1,421)	-	(1,421)
<i>Total other income (expense)</i>	1,131,067	-	1,131,067
<i>CHANGE IN NET ASSETS</i>	1,401,539	-	1,401,539
Net assets, beginning of year	31,280,602	-	31,280,602
<i>NET ASSETS, END OF YEAR</i>	\$ 32,682,141	\$ -	\$ 32,682,141

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2022

	Without donor restrictions	With donor restrictions	Total
STATEMENT OF ACTIVITIES, 2022			
<i>PUBLIC SUPPORT AND REVENUES:</i>			
Membership dues	\$ 6,947,340	\$ -	\$ 6,947,340
New member capital and initial fees	3,637,550	-	3,637,550
Member, tenant, and guest fees	247,452	-	247,452
Program revenue	401,554	-	401,554
Lease income	47,105	-	47,105
Late fees	87,044	-	87,044
Facility rent revenue	21,163	-	21,163
Net assets released from restrictions	30,000	(30,000)	-
<i>Total public support and revenues</i>	11,419,208	(30,000)	11,389,208
<i>EXPENSES:</i>			
Program services	8,045,303	-	8,045,303
General and administrative	2,380,019	-	2,380,019
<i>Total expenses</i>	10,425,322	-	10,425,322
<i>OTHER INCOME (EXPENSE):</i>			
Investment income (loss)	(1,526,699)	-	(1,526,699)
Other revenue	67	-	67
<i>Total other income (expense)</i>	(1,526,632)	-	(1,526,632)
<i>CHANGE IN NET ASSETS</i>	(532,746)	(30,000)	(562,746)
Net assets, beginning of year	31,813,348	30,000	31,843,348
<i>NET ASSETS, END OF YEAR</i>	\$ 31,280,602	\$ -	\$ 31,280,602

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2023

	Program services	General and administrative	Totals
FUNCTIONAL EXPENSES, 2023			
Salaries and wages	\$ 2,968,202	\$ 869,430	\$ 3,837,632
Employee related expenses	889,340	302,138	1,191,478
Total employee-related expenses	3,857,542	1,171,568	5,029,110
Depreciation	1,198,075	125,759	1,323,834
Utilities	1,081,395	-	1,081,395
Supplies	506,024	41,017	547,041
Repairs and maintenance	426,871	-	426,871
Recreation contracts	368,360	-	368,360
Uncapitalized equipment	235,354	62,879	298,233
Facility maintenance	407,315	1,275	408,590
Insurance	-	340,565	340,565
Professional services	91,648	212,895	304,543
Computer expense	1,320	160,321	161,641
Communication	24,048	80,395	104,443
Postage and printing	86,209	13,032	99,241
Vehicles	96,330	-	96,330
Fees and taxes	11,517	81,250	92,767
Investment fees	-	79,185	79,185
Bank and credit card fees	-	73,551	73,551
Amortization	38,872	-	38,872
Catering	30,579	357	30,936
Advertising	28,380	-	28,380
Rental expense	13,051	1,139	14,190
Interest	17,179	-	17,179
Employee training	12,432	2,461	14,893
Dues and subscriptions	7,558	6,006	13,564
Travel	3,694	5,616	9,310
Signage	4,036	-	4,036
Miscellaneous	-	163	163
Total expenses	8,547,789	2,459,434	11,007,223
Less investment fees netted against revenues	-	(79,185)	(79,185)
TOTAL EXPENSES, NET	\$ 8,547,789	\$ 2,380,249	\$ 10,928,038

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2022

	Program services	General and administrative	Totals
FUNCTIONAL EXPENSES, 2022			
Salaries and wages	\$ 2,957,458	\$ 960,326	\$ 3,917,784
Employee related expenses	922,662	318,677	1,241,339
Total employee-related expenses	3,880,120	1,279,003	5,159,123
Depreciation	1,406,388	145,551	1,551,939
Utilities	951,135	-	951,135
Supplies	363,079	55,919	418,998
Recreation contracts	375,954	-	375,954
Insurance	-	338,380	338,380
Facility maintenance	234,198	1,624	235,822
Repairs and maintenance	252,621	-	252,621
Professional services	119,719	117,602	237,321
Uncapitalized equipment	153,365	51,298	204,663
Communication	25,764	81,941	107,705
Postage and printing	91,677	8,690	100,367
Computer expense	-	88,337	88,337
Vehicles	88,253	-	88,253
Investment fees	-	86,438	86,438
Fees and taxes	14,224	54,507	68,731
Bank and credit card fees	-	61,743	61,743
Amortization	-	43,373	43,373
Employee training	10,831	15,676	26,507
Catering	24,945	1,248	26,193
Interest	-	24,073	24,073
Advertising	19,285	-	19,285
Dues and subscriptions	6,760	8,863	15,623
Signage	11,996	-	11,996
Travel	7,721	1,442	9,163
Rental expense	7,268	661	7,929
Miscellaneous	-	88	88
Total expenses	8,045,303	2,466,457	10,511,760
Less investment fees netted against revenues	-	(86,438)	(86,438)
TOTAL EXPENSES, NET	\$ 8,045,303	\$ 2,380,019	\$ 10,425,322

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

CASH FLOWS FROM OPERATING ACTIVITIES	2023	2022
CHANGE IN NET ASSETS	\$ 1,401,539	\$ (562,746)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	1,323,834	1,551,939
Realized and unrealized (gains) losses on investments in marketable securities	(740,774)	1,812,339
Loss on disposal of property and equipment	(1,421)	-
Amortization of finance lease right-of-use assets	38,872	43,373
In-kind lease income	(4,000)	(4,000)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable, net	(251,894)	139,044
Interest receivable	3,813	(15,412)
Supply and maintenance inventory	1,041	(23,044)
Prepaid expenses	(3,173)	34,642
Operating lease right-of-use assets, net	467	1,658
Accounts payable	170,076	63,265
Accrued payroll and related liabilities	(33,864)	(16,790)
Refundable capital fee liability	10,069	(91,750)
Other liabilities	(309)	78,559
Deferred membership dues	(197,543)	15,963
Deferred program and rental revenue	46,478	(4,808)
Operating lease liabilities	(439)	(1,559)
Net cash flows provided by operating activities	1,762,772	3,020,673
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of buildings, improvements, furniture and vehicles	(3,588,810)	(2,738,969)
Proceeds from sale of investment in marketable securities	9,159,375	7,565,748
Purchases of investment in marketable securities	(7,390,492)	(11,111,285)
Net cash flows used in investing activities	(1,819,927)	(6,284,506)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on note payable	(11,000)	(11,000)
Payments on finance leases	(39,319)	(39,145)
Net cash flows used in financing activities	(50,319)	(50,145)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(107,474)	(3,313,978)
Cash and cash equivalents, beginning of year	2,951,396	6,265,374
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,843,922	\$ 2,951,396

NOTES TO FINANCIAL STATEMENTS

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by Green Valley Recreation, Inc. in the preparation of its financial statements is as follows.

NATURE OF OPERATIONS

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 13,850 and 13,823 members as of December 31, 2023 and 2022, respectively.

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.

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 GVR. 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.

CASH AND CASH EQUIVALENTS

GVR considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. GVR classifies money market mutual funds with investments. GVR maintains its cash in bank deposit accounts which may exceed federally insured limits. Uninsured cash at December 31, 2023 and 2022 was \$2,340,997 and \$2,451,396, respectively. GVR mitigates this risk by banking with financial institutions that are rated as stable by the major rating agencies.

ACCOUNTS RECEIVABLE

Accounts receivable are uncollateralized and consist of unpaid membership dues and facility rentals established under contractual agreements. GVR records receivables with an offsetting allowance for credit losses for amounts estimated to be uncollectible over the life of the asset. The allowance for credit losses is estimated using a loss-rate method that considers historical collection experience, the age of the accounts receivable balances, the credit quality and risk of its members, any specific collection issues, current economic conditions, and other micro or macro-economic factors that may impact ability to pay. GVR also considers reasonable and supportable forecasts of future economic conditions and the expected impact on collections. At the time a receivable is determined to be uncollectible, the balance is written off against the allowance for credit losses.

GVR assesses late fees on past due balances.

MAINTENANCE AND SUPPLY INVENTORY

GVR maintains an inventory of supplies and items commonly used for maintenance activities. The inventory is recorded at cost and no income is generated from such items.

INVESTMENT IN MARKETABLE SECURITIES

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.

INVESTMENT VALUATION AND INCOME

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment expenses are recorded as a reduction in investment earnings.

US GAAP establishes the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under US GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that GVR has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

GVR's investments are summarized in the *Investment in Marketable Securities* note. The Organization's policies with respect to valuing the various categories of investments are as follows:

Mutual funds - Valued at the net asset value as reported by the fund manager at the close of business which is a readily determinable fair value in accordance with GAAP.

Common stock and exchange traded funds - valued at the closing prices at the close of business as reported on nationally recognized stock exchanges which represents fair value.

Corporate and government bonds - Reported at the closing trade price on nationally recognized exchanges.

FINANCIAL INSTRUMENTS

Financial instruments that subject GVR to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and investment in marketable securities. The total loss that would occur if the accounts became uncollectible is the stated balance of the financial instruments reported in the accompanying statements of financial position.

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.

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.

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. The Property Acquisition Capital Fee 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 total refunds that are likely to result from waivers within the next year using the historical ratio of waivers to home sales.

LEASES

GVR recognizes and measures its lease obligations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases ("Topic 842")*. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term. ROU assets are recognized at the commencement date of the lease under Topic 842 based on the lower of the lease liability or the fair value of the underlying asset, adjusted for any prepaid rent and/or initial direct costs incurred in connection with execution of the lease and reduced by any lease incentives received. GVR's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The right-of-use asset is subsequently amortized using the straight-line method from the commencement date under Topic 842 to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the balance of the right-of-use asset reflects that GVR will exercise a purchase option. In that case the right-of-use asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, GVR's incremental borrowing rate or the risk-free rate determined with reference to the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in GVR's estimate of the amount expected to be payable under a residual value guarantee, if GVR changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the results of operations if the carrying amount of the right-of-use asset has been reduced to zero.

Practical expedients

GVR has elected, for all underlying classes of asset, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at commencement, and do not include an option to purchase the underlying asset that GVR is reasonably certain to exercise. GVR recognizes lease costs associated with short-term leases on a straight-line basis over the lease term. GVR does not include non-lease components in its determination of its fixed lease payment obligations in the measurement of ROU assets and lease liabilities. GVR uses a risk-free rate to discount future lease payments, considering the currency of the lease agreement and terms of the lease.

CONTRIBUTIONS

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. When conditions are satisfied, 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, 2023 and 2022, 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.

REVENUE

Revenue is recognized in accordance with Accounting Standards Codification Topic 606 – *Revenues from Contracts with Customers* (“ASC 606”) which requires an evaluation of contracts with customers based the following five-step model: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenues when (or as) each performance obligation is satisfied.

ASC 606 requires revenues to be recognized when performance obligations are satisfied by transferring goods or services promised in a contract, in an amount that reflects the consideration that the GVR expects to receive in exchange for those goods or services. Performance obligations in the GVR’s contracts represent distinct or separate service streams that it provides.

Management has assessed recognition of each type of revenue generated by GVR, in accordance with ASC 606, as described below.

Membership dues and access card fees – Revenue is recognized as the performance obligation is satisfied 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, 2023 or 2022 for prior year membership dues. Outstanding performance obligations at December 31, 2023 and 2022 represent amounts collected in advance for future period membership dues.

Facility rent - 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.

Capital/initial fees - New member capital and initial fees are recognized at a point in time, when a property is purchased, and late fees are recognized when the related fees are determined to be overdue.

Programs and instructional - Revenue generated from instructional and entertainment activities create obligations that are satisfied by the performance of specific activities. Revenue from these activities are recognized through the performance of activities.

DONATED GOODS, FACILITIES AND SERVICES

Donated goods and facilities are valued at fair value at the time of donation. Donated services are recognized in the financial statements at fair 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 US GAAP.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of program and general and administrative 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, or fundraising directly during the payment process.

INCOME TAXES

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 US GAAP, management believes 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 COSTS

Advertising costs are expensed as incurred and totaled \$28,380 and \$19,285 for the years ended December 31, 2023 and 2022, respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues and expenses and disclosure of any contingent assets and liabilities at the date of the financial statements. Actual results could differ from estimates.

RECLASSIFICATIONS

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications have no effect on previously reported net assets.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326") which introduced a new credit loss methodology entitled Current Expected Credit Losses ("CECL"). The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, trade receivables, and other financial assets commencing at the time the financial asset is originated or acquired. The methodology replaces the multiple existing impairment methods in historical U.S. GAAP, which generally require that a loss be incurred before it is recognized ("Incurred Loss Model").

GVR adopted ASC 326 and all related subsequent amendments thereto effective on January 1, 2023, using the modified retrospective approach. Accordingly, results for reporting periods beginning on January 1, 2023, are presented under CECL while prior periods continue to be reported in accordance with the incurred loss model as previously applicable. The adoption of Topic 326 did not result in a cumulative effect adjustment to net assets as of January 1, 2023.

NOTE B. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

	2023	2022
Accounts receivable	\$ 452,731	\$ 213,619
Less allowances	(151,126)	(163,908)
Net accounts receivable	\$ 301,605	\$ 49,711

Changes in allowance for credit losses consisted of the following during the year ended December 31, 2023:

Allowance for credit losses, beginning of year	\$ 163,908
Less write offs charged against allowance	(12,782)
Allowance for credit losses, end of year	\$ 151,126

NOTE C. INVESTMENT IN MARKETABLE SECURITIES

The financial statement values and cost basis of investments, including aggregated unrealized gains and losses, at December 31, 2023 were as follows:

	Fair value	Cost	Unrealized gains	Unrealized losses
Corporate bonds	\$ 6,494,322	\$ 6,122,041	\$ 372,281	\$ -
Mutual funds	2,159,801	2,629,918	-	(470,117)
Common stock	3,430,031	2,579,731	850,300	-
Government bonds	981,697	874,382	107,315	-
Exchange traded funds	390,678	354,441	36,237	-
Totals	\$ 13,456,529	\$ 12,560,513	\$ 1,366,133	\$ (470,117)

The financial statement values and cost basis of investments, including aggregated unrealized gains and losses, at December 31, 2022 were as follows:

	Fair value	Cost	Unrealized gains	Unrealized losses
Corporate bonds	\$ 6,211,153	\$ 6,096,352	\$ 114,801	\$ -
Mutual funds	3,283,684	3,787,701	-	(504,017)
Common stock	3,203,930	2,711,047	492,883	-
Government bonds	1,501,016	1,515,569	-	(14,553)
Exchange traded funds	168,251	177,797	-	(9,546)
Small issue municipal bonds	116,604	125,010	-	(8,406)
Totals	\$ 14,484,638	\$ 14,413,476	\$ 607,684	\$ (536,522)

Fair values of assets measured on a recurring basis at December 31, 2023 were as follows:

	Level 1	Level 2	Total
Corporate bonds	\$ 6,494,322	\$ -	\$ 6,494,322
Mutual funds	2,159,801	-	2,159,801
Common stock	3,430,031	-	3,430,031
Government bonds	981,697	-	981,697
Exchange traded funds	390,678	-	390,678
Total investments at fair value	\$ 13,456,529	\$ -	\$ 13,456,529

Fair values of assets measured on a recurring basis at December 31, 2022 were as follows:

	Level 1	Level 2	Total
Corporate bonds	\$ 6,211,153	\$ -	\$ 6,211,153
Mutual funds	3,283,684	-	3,283,684
Common stock	3,203,930	-	3,203,930
Government bonds	1,501,016	-	1,501,016
Exchange traded funds	168,251	-	168,251
Small issue municipal bonds	-	116,604	116,604
Total investments at fair value	\$ 14,368,034	\$ 116,604	\$ 14,484,638

Investment income consisted of the following for the years ended December 31:

	2023	2022
Interest and dividends	\$ 456,354	\$ 372,078
Realized and unrealized gain (loss)	740,774	(1,812,339)
Less investment fees	(79,185)	(86,438)
Net investment income (loss)	\$ 1,117,943	\$ (1,526,699)

Assets held in the brokerage accounts, by type of asset and board designation, were as follows at December 31, 2023:

	Cash and cash equivalents	Investments	Accrued interest	Brokerage account total
Board designated net assets:				
Emergency	\$ 16,920	\$ 543,275	\$ 1,363	\$ 561,558
Initiatives	137,568	1,612,487	10,722	1,760,777
Repairs and replacements	122,540	7,867,827	44,269	8,034,636
Total board designated assets	277,028	10,023,589	56,354	10,356,971
Undesignated - operations	34,338	3,432,940	3,267	3,470,545
Total assets held	\$ 311,366	\$ 13,456,529	\$ 59,621	\$ 13,827,516

Assets held in the brokerage accounts, by type of assets and board designation, were as follows at December 31, 2022:

	Cash and cash equivalents	Investments	Accrued interest	Brokerage account total
Board designated net assets:				
Emergency	\$ 93,869	\$ 396,832	\$ 541	\$ 491,242
Initiatives	319,814	2,211,743	15,032	2,546,589
Repairs and replacements	168,672	7,451,499	41,835	7,662,006
Total board designated	582,355	10,060,074	57,408	10,699,837
Undesignated - operations	502,939	4,424,564	6,026	4,933,529
Total assets held	<u>\$ 1,085,294</u>	<u>\$ 14,484,638</u>	<u>\$ 63,434</u>	<u>\$ 15,633,366</u>

NOTE D. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management regularly monitors the availability of financial resources required to meet current operating needs. GVR generally maintains financial resources as cash and cash equivalents and as investments in marketable securities. GVR utilizes a one-year time horizon to assess its immediate liquidity needs and maintains a minimum cash balance of no less than 90 days of annual operating expenses. This period of time was established based on management's understanding of the typical cycle of payables in the normal course of business. GVR 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.

The following reflects GVR's financial assets, and limitations on those assets as of December 31, 2023 and 2022, available for use for general expenditures within one year of the date of the statement of financial position:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 2,843,922	\$ 2,951,396
Accounts receivable, net	301,605	49,711
Interest receivable	59,621	63,434
Investment in marketable securities	13,456,529	14,484,638
Total financial assets	<u>16,661,677</u>	<u>17,549,179</u>
Less board designated amounts:		
Emergency operations	561,557	491,242
Initiatives	1,760,779	2,546,589
Repairs and replacements	8,034,635	7,662,006
Total board designated amounts	<u>10,356,971</u>	<u>10,699,837</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,304,706</u>	<u>\$ 6,849,342</u>

NOTE E. OPERATING AND FINANCE LEASES

GVR leases office equipment and a mobile storage unit under non-cancelable leases expiring at various times through 2026.

OPERATING LEASES

GVR leased a postage meter under an agreement that required \$55 monthly payments and expired in September 2023. For the years ended December 31, 2023 and 2022, total operating lease costs were \$468 and \$1,665, respectively.

FINANCE LEASES

GVR leases office equipment under non-cancelable leases expiring at various times through 2026 and requiring monthly payments cumulatively totaling \$4,554. The economic substance of these leases is financing the acquisition of the assets through the leases and, accordingly, they have been recorded as finance lease obligations in the accompanying financial statements.

The following is a schedule of future minimum payments as of December 31:

2024	\$ 49,462
2025	37,688
2026	<u>10,735</u>
Total undiscounted lease payments	97,885
Less interest	<u>(13,624)</u>
Total finance lease liabilities	84,261
Less current portion	<u>(40,307)</u>
Finance lease liabilities, long-term portion	<u>\$ 43,954</u>

As of December 31, 2023, the weighted average remaining lease term is 2.12 years for finance leases and the weighted average discount rate is 16.32%.

NOTE F. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2023 consisted of the following:

	Contributed	Purchased	Total
Land and improvements	\$ 4,166,276	\$ 2,114,525	\$ 6,280,801
Buildings and improvement	12,852,422	15,413,620	28,266,042
Tennis, shuffleboard, and sports courts	324,958	2,042,193	2,367,151
Pools, spas, and equipment	412,588	2,991,609	3,404,197
Recreational equipment	230,841	1,441,191	1,672,032
Vehicles	-	1,039,291	1,039,291
Furniture	30,000	2,460,081	2,490,081
Total property and equipment	18,017,085	27,502,510	45,519,595
Less accumulated depreciation	(11,000,125)	(16,464,313)	(27,464,438)
Construction-in-progress	-	3,388,354	3,388,354
Property and equipment, net	<u>\$ 7,016,960</u>	<u>\$ 14,426,551</u>	<u>\$ 21,443,511</u>

Property and equipment at December 31, 2022 consisted of the following:

	Contributed	Purchased	Total
Land and improvements	\$ 4,166,276	\$ 2,126,636	\$ 6,292,912
Buildings and improvement	12,852,422	14,125,121	26,977,543
Tennis, shuffleboard, and sports courts	324,958	1,990,614	2,315,572
Pools, spas, and equipment	412,588	2,971,493	3,384,081
Recreational equipment	230,841	1,295,394	1,526,235
Vehicles	-	877,198	877,198
Furniture	30,000	2,547,718	2,577,718
Total property and equipment	18,017,085	25,934,174	43,951,259
Less accumulated depreciation	(10,691,609)	(16,056,558)	(26,748,167)
Construction-in-progress	-	1,974,022	1,974,022
Property and equipment, net	\$ 7,325,476	\$ 11,851,638	\$ 19,177,114

NOTE G. REFUNDABLE CAPITAL FEE LIABILITY

For the years ended December 31, 2023 and 2022, PACF revenue recognized, net of the change in the estimated obligation for fees to be refunded, and actual refunds pursuant to waivers were as follows:

	2023	2022
Property acquisition capital fees collected	\$ 2,718,340	\$ 2,929,188
Less change in estimated obligation for refundable fees	(14,580)	96,208
PACF revenue recognized, included in new member capital and initial fees on the statement of activities	\$ 2,703,760	\$ 3,025,396
Actual PACF fee refunds	\$ 237,800	\$ 205,568

NOTE H. NOTES PAYABLE AND DEFERRED LEASE REVENUE

During the year ended December 31, 2021, GVR purchased a parking lot from GVR Foundation (the "Foundation") for a purchase price of \$170,000. The purchase price was effected through a note payable to the Foundation totaling \$110,000 and an agreement to provide office space to the Foundation at no charge for 15 years.

The note payable is non-interest bearing and requires annual principal payments of \$11,000 through 2031 until the note is paid in full. GVR made the first annual payment at the time of closing in August 2021.

The value of the office space to be provided is estimated at \$4,000 per year. During the years ended December 31, 2023 and 2022, GVR recognized \$4,000 of lease revenue and reduction of deferred lease revenue. Management has determined that the effect of imputed interest on the net present value of the note payable and the deferred lease revenue is immaterial.

Liabilities related to the property acquisition were as follows at December 31, 2023:

	Note payable	Deferred lease revenue	Total
Payable to GVR Foundation	\$ 77,000	\$ 50,667	\$ 127,667
Less current portion	(11,000)	(4,000)	(15,000)
Long-term portion	\$ 66,000	\$ 46,667	\$ 112,667

Liabilities related to the property acquisition were as follows at December 31, 2022:

	Note payable	Deferred lease revenue	Total
Payable to GVR Foundation	\$ 88,000	\$ 54,667	\$ 142,667
Less current portion	(11,000)	(4,000)	(15,000)
Long-term portion	\$ 77,000	\$ 50,667	\$ 127,667

Future minimum payments on the note payable and fair value of office space to be provided to the Foundation at no cost for each of the next five years and thereafter consists of the following at December 31, 2023:

	Note payable	Deferred lease revenue	Total
2024	\$ 11,000	\$ 4,000	\$ 15,000
2025	11,000	4,000	15,000
2026	11,000	4,000	15,000
2027	11,000	4,000	15,000
2028	11,000	4,000	15,000
Thereafter	22,000	30,667	52,667
Total minimum future payments	\$ 77,000	\$ 50,667	\$ 127,667

NOTE I. 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, 2023:

	Emergency	Initiatives	Repairs and replacements	Total
Beginning balance	\$ 491,242	\$ 2,546,589	\$ 7,662,006	\$ 10,699,837
Board designations:				
Capital fees	-	553,077	-	553,077
Other designations	-	428,596	1,469,346	1,897,942
Expended for projects	-	(1,901,267)	(1,773,221)	(3,674,488)
Investment income	69,493	138,093	674,070	881,656
Change in accrued interest	822	(4,309)	2,434	(1,053)
Total board designated net assets	\$ 561,557	\$ 1,760,779	\$ 8,034,635	\$ 10,356,971

Activity in board designated net assets was as follows for the year ended December 31, 2022:

	Emergency	Initiatives	Repairs and replacements	Total
Beginning balance	\$ 1,155,668	\$ 2,190,524	\$ 9,148,893	\$ 12,495,085
Board designations:				
Capital fees	-	649,825	-	649,825
Other designations	(467,156)	479,715	1,402,519	1,415,078
Expended for projects	-	(551,901)	(1,920,638)	(2,472,539)
Investment income	(212,796)	(212,818)	(971,133)	(1,396,747)
Change in accrued interest	15,526	(8,756)	2,365	9,135
Total board designated net assets	\$ 491,242	\$ 2,546,589	\$ 7,662,006	\$ 10,699,837

NOTE J. NET ASSETS WITH DONOR RESTRICTIONS

There was no activity in net assets with donor restrictions as of and for the year ended December 31, 2023. Activity in net assets with donor restrictions for the year ended December 31, 2022, and balances of net assets with donor restrictions as of the year then ended, were as follows:

	Beginning balance	Contributions	Releases	Ending balance
Subject to purpose restrictions:				
Monument sign	\$ 30,000	\$ -	\$ 30,000	\$ -

NOTE K. REVENUE FROM CONTRACTS WITH CUSTOMERS

During the years ended December 31, 2023 and 2022, GVR recognized \$4,684,821 and \$4,673,666, respectively, in previously deferred revenue for member dues, program revenue, and access card fees.

GVR had no contract assets at either December 31, 2023 or 2022. 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 \$212,826 and \$202,757 at December 31, 2023 and 2022, respectively.

Disaggregated revenue from contracts with customers and allocated performance obligations as of and for the year ended December 31, 2023 was as follows:

Revenue recognition method	Revenue recognized	Outstanding performance obligation
Point in time:		
New member capital and initial fees	\$ 3,234,560	\$ -
Late fees	70,281	-
Over time:		
Membership dues	7,051,930	4,357,257
Member, tenant and guest fees	259,344	-
Facility rental	16,822	-
Lease income	51,478	-
Performance activity:		
Program revenue	514,095	176,499
Total Revenue	\$ 11,198,510	\$ 4,533,756

Disaggregated revenue from contracts with customers and allocated performance obligations as of and for the year ended December 31, 2022 was as follows:

Revenue recognition method	Revenue recognized	Outstanding performance obligation
<i>Point in time:</i>		
New member capital and initial fees	\$ 3,637,550	\$ -
Late fees	87,044	-
<i>Over time:</i>		
Membership dues	6,947,340	4,554,800
Member, tenant and guest fees	247,452	-
Facility rental	21,163	-
Lease income	47,105	-
<i>Performance activity:</i>		
Program revenue	401,554	130,021
<i>Total Revenue</i>	\$ 11,389,208	\$ 4,684,821

NOTE L. 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 \$8,034,635 and \$7,662,006 as of December 31, 2023 and 2022. 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 October of 2022 and was updated in October 2023. The most recent study concluded that the fully funded reserve balance at December 31, 2023 would be \$9,830,329 of which GVR had funded \$8,034,635 or 82% at December 31, 2023. The reserve study is based on a recommended annual contribution of \$1,220,295 for 2024 to the replacement reserve, to be increased annually at a rate of 6.50%, 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 M. 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 limit. GVR matches the percentage the employee contributes per pay period up to 5% of compensation. Retirement plan contributions made by GVR were \$98,660 and \$105,293 for the years ended December 31, 2023 and 2022, respectively.

NOTE N. 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 years ended December 31, 2023 and 2022, GVR received no in-kind revenue subject to recognition.

During the years ended December 31, 2023 and 2022, the Foundation's Member Assistance Program provided \$26,733 and \$21,900, respectively, to GVR on behalf of specific members for membership dues. The Foundation was an entity under common control until 2020. Amounts collected on behalf of the Foundation are included in other liabilities in the accompanying statements of financial position.

NOTE O. CONTINGENCIES

GVR is involved from time-to-time in various claims and legal actions in the ordinary course of business. Management does not believe that the impact of such matters will have a material adverse effect on their financial position or results of operations when resolved.

NOTE P. SUBSEQUENT EVENTS

The preparation of financial statements to conform with US GAAP requires management to disclose the date through which the subsequent events (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) were evaluated when determining whether adjustment or disclosure in the financial statements is required. Management of GVR evaluated subsequent events through **DATE**, which represents the date the accompanying financial statements were available to be issued.

DRAFT

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**GREEN VALLEY
RECREATION, INC.**

REPORT TO MANAGEMENT

DECEMBER 31, 2023

DATE

To the Board of Directors and Management
Green Valley Recreation, Inc.
Tucson, Arizona

In planning and performing our audit of the financial statements of Green Valley Recreation, Inc. (“GVR”) as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered GVR’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GVR’s internal controls. Accordingly, we do not express an opinion on the effectiveness of GVR’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of GVR’s financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify one deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the Board of Directors, and others within GVR, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A Professional Corporation

Tucson, Arizona

Significant Deficiency

1. IMPROVE OVERSIGHT AND REVIEW OF NEW RESPONSIBILITIES DURING PERSONNEL TRANSITION

During audit procedures we noted the following that resulted from the transition of monthly reconciliation and close responsibilities to new personnel:

- a. The liability for accrued payroll was overstated due to incorrect inclusion of the employee withholdings and 401k deductions in addition to the employees' gross pay for the period;
- b. Several outstanding checks were older than 3 months and had not been investigated, reissued, or voided;
- c. The December PACF fees were not transferred to the Initiatives Reserve Fund within 10 business days after the end of the month as required by the Corporate Policy Manual.

None of the items discussed above resulted in a material misstatement to the overall financial statements. However, we recommend management implement enhanced review over month-end and closing processing procedures, at least on a probationary basis, whenever there are changes in responsible personnel. The oversight process should include a specific review of the accrued payroll allocations between wages, payroll taxes and deductions for each period that payroll is accrued at month end. We also recommend creating or enhancing month-end closing checklists to include reminders to review outstanding checks and ensure interfund transfers are made timely.