

Bella Vista Village Property Owners Association

Independent Auditor's Reports and Financial Statements

December 31, 2014 and 2013



Bella Vista Village Property Owners Association

December 31, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Bella Vista Village Property Owners Association
Bella Vista, Arkansas

We have audited the accompanying financial statements of Bella Vista Village Property Owners Association, which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of revenue and expenses, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bella Vista Village Property Owners Association as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Financial Accounting Standards Board 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. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Rogers, Arkansas
April 13, 2015

Bella Vista Village Property Owners Association

Balance Sheets

December 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 1,916,640	\$ 1,240,380
Investments - certificates of deposit	7,839,748	5,810,495
Debt service sinking fund (<i>Note 6</i>)	444,156	838,741
Membership assessments receivable net of allowance; 2014 - \$1,827,096, 2013 - \$1,780,118	272,144	305,728
Water utilities receivable net of allowance; 2014 - \$3,901, 2013 - \$7,597	707,556	812,775
Other receivables	84,447	81,986
Inventories (<i>Note 2</i>)	385,588	436,527
Assets held for sale	-	629,920
Prepaid expenses	194,245	217,466
Member lots held for sale, net of estimated expenses (<i>Note 3</i>)	32,867	13,418
	<u>11,877,391</u>	<u>10,387,436</u>
Property and Equipment, Net of Accumulated Depreciation (<i>Note 4</i>)	<u>47,464,056</u>	<u>48,569,770</u>
Other Assets		
Investments - certificates of deposit	7,903,747	7,046,524
Bond issuance costs, net of accumulated amortization of \$2,413 in 2014 and \$9,800 in 2013	206,466	39,200
	<u>8,110,213</u>	<u>7,085,724</u>
Total assets	<u><u>\$ 67,451,660</u></u>	<u><u>\$ 66,042,930</u></u>

Liabilities and Members' Equity

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Current portion of bonds payable (<i>Note 5</i>)	\$ 65,000	\$ 325,000
Accounts payable	646,084	752,939
Accrued expenses	2,571,791	2,530,718
Members' deposits and prepayments	699,969	543,877
Deferred revenue	<u>194,606</u>	<u>35,304</u>
Total current liabilities	4,177,450	4,187,838
Long-term Bonds Payable, Net (<i>Note 5</i>)	<u>7,296,994</u>	<u>7,194,806</u>
Total liabilities	<u>11,474,444</u>	<u>11,382,644</u>
Members' Equity		
Contributed capital	32,628,284	32,628,284
Cumulative excess of revenue over expenses		
Undesignated	22,904,776	21,193,261
Designated for debt service	<u>444,156</u>	<u>838,741</u>
Total members' equity	<u>55,977,216</u>	<u>54,660,286</u>
Total liabilities and members' equity	<u><u>\$ 67,451,660</u></u>	<u><u>\$ 66,042,930</u></u>

Bella Vista Village Property Owners Association
Statements of Revenues and Expenses
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue		
Water	\$ 6,710,659	\$ 6,822,907
Sanitation	22,318	24,213
Member assessments	8,637,206	8,731,573
Golf cart rentals and green fees	3,600,778	3,615,056
Community and recreation center fees	757,811	776,889
Pro shop clothing and equipment sales	512,808	517,487
Outdoor activities and recreational vehicle park fees	501,066	489,929
Investment return	145,286	(5,462)
Golf vending and recreation beverage sales	79,217	76,898
Other recreation	50,901	49,980
Property income	477,378	483,694
Deferred revenue - water fees	145,580	228,010
Income - City of Bella Vista	112,178	118,813
Interest income - debt service	98	2,128
Other income	517,789	652,494
Gain on sale of buildings	1,244,295	-
	23,515,368	22,584,609
Expenses		
Program services		
Operating expenses	13,339,908	13,053,158
Cost of goods sold	2,420,760	2,437,122
Depreciation	2,421,179	2,491,507
	18,181,847	17,981,787
General and administrative		
Operating expenses	3,885,474	3,928,021
Depreciation	131,117	153,675
	4,016,591	4,081,696
	22,198,438	22,063,483
Excess of Revenues Over Expenses	\$ 1,316,930	\$ 521,126

Bella Vista Village Property Owners Association
Statements of Changes in Members' Equity
Years Ended December 31, 2014 and 2013

	Contributed Capital	Undesignated	Designated for Debt Service	Members' Equity
Balance, January 1, 2013	\$ 32,628,284	\$ 20,675,577	\$ 835,299	\$ 54,139,160
Designation of debt service for Series 2009 bonds	-	(3,442)	3,442	-
Excess of revenues over expenses	-	521,126	-	521,126
Balance, December 31, 2013	32,628,284	21,193,261	838,741	54,660,286
Designation of debt service for Series 2014 bonds	-	394,585	(394,585)	-
Excess of revenues over expenses	-	1,316,930	-	1,316,930
Balance, December 31, 2014	<u>\$ 32,628,284</u>	<u>\$ 22,904,776</u>	<u>\$ 444,156</u>	<u>\$ 55,977,216</u>

Bella Vista Village Property Owners Association
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Excess of revenues over expenses	\$ 1,316,930	\$ 521,126
Items not requiring (providing) operating activities cash flows		
Depreciation	2,552,296	2,645,182
Net unrealized losses on investments	44,211	81,657
Amortization of bond issue costs	41,613	2,450
Amortization of discount/premium on issuance of bonds	183,912	11,575
Gain on disposals of property, plant and equipment	(1,296,578)	-
Changes in		
Membership assessments receivable	33,584	(37,238)
Water utilities and other receivables	102,758	(34,318)
Inventories	50,939	(57,349)
Prepaid expenses	23,221	(67,184)
Other assets	(208,879)	-
Member lots held for sale	(19,449)	(8,533)
Accounts payable	(106,855)	(129,780)
Accrued expenses	41,073	(59,593)
Other liabilities	315,394	(324,616)
Net cash provided by operating activities	3,074,170	2,543,379
Investing Activities		
Purchases of certificates of deposit	(5,254,282)	(9,917,276)
Proceeds from maturity of certificates of deposit	2,323,595	7,562,902
Decrease (increase) in restricted funds	394,585	(3,442)
Purchases of property, plant and equipment	(1,487,173)	(712,145)
Proceeds from sale of property, plant and equipment	1,967,089	-
Net cash used in investing activities	(2,056,186)	(3,069,961)
Financing Activities		
Principal payments on bonds payable	(7,705,000)	(320,000)
Proceeds from issuance of bonds payable	7,363,276	-
Net cash used in financing activities	(341,724)	(320,000)
Net Increase (Decrease) in Cash and Cash Equivalents	676,260	(846,582)
Cash and Cash Equivalents, Beginning of Year	1,240,380	2,086,962
Cash and Cash Equivalents, End of Year	\$ 1,916,640	\$ 1,240,380
Supplemental Cash Flows Information		
Interest paid	\$ 433,568	\$ 348,650

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Bella Vista Village Property Owners Association (the "Association") is a nonprofit association formed on May 18, 1965, under the Bella Vista Village Covenants and Restrictions as filed by the Association and Cooper Communities, Inc. (the "Developer"). Membership in the Association is attained by the purchase of property within the area known as Bella Vista Village, Arkansas (the "Village") and is terminated upon the sale of that property. Lots are platted and sold by the Developer. At December 31, 2014 and 2013, there were 38,969 and 38,929, respectively, platted lots in the Village subject to annual membership assessments.

The Association owns and operates golf courses, clubhouses, golf pro shops, recreational facilities and a recreational vehicle park. The Association provides water services within the Village. Sanitation and street maintenance responsibilities were transferred to the City of Bella Vista (the "City") in 2008. The Association provides billing and collection service for sanitation to the City on a contractual basis. These services are provided on behalf of the property owners who pay an annual assessment and, in many cases, a usage charge for these services. The Association extends unsecured credit to these customers.

The Bella Vista Village Covenants and Restrictions provide that the Developer may construct water systems, roads and streets (dedicated to the public or as common properties for the use of property owners), lakes, golf courses, parks and permanent recreational plots, as it deems feasible, but has no obligation to construct such facilities. The Developer may convey title to common properties to the Association after construction is completed or at an earlier time should they so desire.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2014, the Association's cash accounts did not exceed federally insured limits.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Investments and Investment Return

Investments in non-negotiable certificates of deposit are carried at cost which approximates fair value. Investments in negotiable certificates of deposit are carried at fair value. All other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Restricted investments consist of a fully collateralized money market fund. Investment return includes interest; realized and unrealized gains and losses on investments carried at fair value.

Membership Assessments Receivable

Association members are subject to monthly assessments which provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Membership assessments receivable at the balance sheet date represent uncollected monthly assessments. Accounts that are unpaid after three months bear interest of 6% per month.

The allowance for doubtful accounts is based on management's estimate of the overall collectability of assessments receivable based on historical experience. Account balances are charged against the allowance when management forecloses on the lots. Lots are foreclosed when all attempts to collect the past due assessments have proven unsuccessful.

Water Utilities Receivable

Association members receive water services which are provided by the Association. Sanitation services are contracted by the City with an outside unrelated party. Billings and collections are handled by the Association in accordance with a service agreement with the City.

The allowance for doubtful accounts is based on management's estimate of the overall collectability of utilities receivable based on historical experience. Accounts are charged against the allowance when deemed uncollectible. Accounts are considered delinquent on the 15th day of the month following the month of service. Past due accounts are not charged interest.

Members' Deposits and Prepayments

Members' deposits are generally a deposit for water service. Members' prepayments consist primarily of assessments paid in advance.

Inventory Pricing

Inventories are stated at the lower of cost or market using average cost methods. Inventory consists primarily of golf maintenance supplies and merchandise for sale.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Property and Equipment

Fixed assets are capitalized at cost, if acquired or constructed by the Association, or the Developer's cost, which approximates fair value, if contributed. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the respective assets.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	2 - 40 years
Community centers	5 - 40 years
Buildings and building improvements	2 - 40 years
Equipment	2 - 40 years

Common Property

The Association holds title to property consisting of seven golf courses, seven lakes, parks, water distribution equipment, five clubs with food and beverage facilities, as well as various other buildings and equipment. The Association maintains all properties to which title is held. All streets and roads within the Village were constructed by the developer and maintained by the POA. The City was incorporated in 2006 and in 2008 began paying the POA to continue the maintenance. In 2012, the City formed a street department and assumed the road maintenance responsibilities.

Long-lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2014 and 2013.

Bond Issuance Cost

Costs incurred in issuing the 2014 series bonds are being amortized using the straight line method over the life of the bonds, which is fifteen years. Amortization expense amounted to \$4,450 and \$2,450 for the years ended December 31, 2014 and 2013, respectively.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Self-insured Health Coverage

The Association elects to self-insure certain costs related to employee health coverage. Costs of coverage resulting from noninsured losses are charged to expense as incurred. The Association purchases insurance that limits its exposure for individual and aggregate claims.

Income Taxes

The Association is classified as a tax-exempt Association under Internal Revenue Code Section 501(c)(4) and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business taxable income. The Association has been classified as an Association that is not a private foundation under Section 509(a) of the Internal Revenue Code.

The Association files tax-exempt returns in the U.S. federal jurisdiction and the state of Arkansas. With a few exceptions, the Association is not subject to U.S. federal, state and local tax examinations by tax authorities for years before 2011.

Basis of Presentation

Financial Accounting Standards Board Accounting Standards Codification (ASC) 972, *Real Estate – Common Interest Realty Associations* presents recommendations on, and descriptions of, financial accounting and reporting principles and practices for common interest realty associations. Except for not providing required supplementary information regarding estimated future costs of repairs and replacement of common property, as described in Note 10, the Association's financial statements comply with the applicable provisions of ASC 972.

Basis of Accounting

The Association's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Note 2: Inventories

Inventories at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Mechanic and maintenance	\$ 120,776	\$ 150,181
Food and beverage	1,365	1,229
Fuel	15,938	19,327
Golf pro shop	225,240	255,363
Other	<u>22,269</u>	<u>10,427</u>
	<u>\$ 385,588</u>	<u>\$ 436,527</u>

Note 3: Member Lots Held for Sale

Member lots held for sale, amounting to \$32,867 and \$13,418 at December 31, 2014 and 2013, respectively, consists of lots obtained from property owners through foreclosure as a result of failure by the property owners to pay membership assessments. Amounts consist primarily of costs incurred by the Association to get property deeds in the Association's name to enable the sale of such lots.

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

	<u>2014</u>	<u>2013</u>
Land	\$ 18,684,488	\$ 18,684,488
Land improvements	21,035,122	20,872,978
Community centers	2,523,921	2,523,921
Buildings and building improvements	15,420,028	15,154,622
Equipment	35,505,708	35,621,803
Construction in progress	<u>336,067</u>	<u>105,867</u>
	93,505,334	92,963,679
Less accumulated depreciation	<u>46,041,278</u>	<u>44,393,909</u>
	<u>\$ 47,464,056</u>	<u>\$ 48,569,770</u>

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Note 5: Bonds Payable

The Association has entered into agreements with the Bentonville, Arkansas Public Facilities Board (Facilities Board) in connection with tax exempt bonds issued by the Facilities Board under which the Association is obligated to provide for the retirement of such bonds and related interest payments.

- (A) The Facilities Board issued \$8,615,000 of Water Revenue Construction Bonds, Series 2009, dated December 1, 2009, maturing serially on January 1, 2011 through 2030, with interest payable semiannually at rates ranging from 1.50% to 5.00%. The proceeds of such bonds are being used to finance the costs of capacity construction and maintenance and repair on existing water lines. These bonds were refunded by the Water Revenue Refunding Bonds, Series 2014 and the debt is defeased and liability has been removed from the balance sheet.
- (B) The Facilities Board issued \$7,255,000 of Water Revenue Refunding Bonds, Series 2014, dated October 23, 2014, maturing serially on January 1, 2015 through 2029, with interest payable semiannually at rates ranging from 1.00% to 3.20%. The proceeds of such bonds are being used to provide funds to refund the Board's outstanding \$8,615,000 Water Revenue Construction Bonds dated December 1, 2009.

The Association's water capital buy in fees are pledged as security for the capacity construction portion of the bonds and water revenues are pledged as security for the maintenance and repair portion of the bonds.

	<u>2014</u>	<u>2013</u>
Water Revenue Construction Bonds, Series 2009 (A)	\$ -	\$ 7,705,000
Water Revenue Construction Bonds, Series 2014 (B)	7,255,000	-
Plus premium on issuance of bonds	106,994	-
Less discount on issuance of bonds	<u>-</u>	<u>185,194</u>
Total bonds payable, net of premium and discount	7,361,994	7,519,806
Less current maturities	<u>65,000</u>	<u>325,000</u>
	<u>\$ 7,296,994</u>	<u>\$ 7,194,806</u>

Bella Vista Village Property Owners Association
Notes to Financial Statements
December 31, 2014 and 2013

Aggregate annual maturities of long-term debt at December 31, 2014, are:

Year	Principal	Interest	Total
2015	\$ 65,000	\$ 35,016	\$ 100,016
2016	460,000	202,670	662,670
2017	470,000	193,470	663,470
2018	480,000	184,070	664,070
2019	490,000	174,470	664,470
2020-2024	2,670,000	643,150	3,313,150
2025-2029	<u>2,620,000</u>	<u>220,010</u>	<u>2,840,010</u>
Total	<u>\$ 7,255,000</u>	<u>\$ 1,652,856</u>	<u>\$ 8,907,856</u>

Note 6: Restricted Funds

Restricted funds result from requirements of the water revenue refunding bonds and the water revenue construction bonds. The Association is required to make deposits into a debt service fund. The debt service fund is required to maintain a balance equal to the current portion of the note payable. These funds are in a government securities mutual fund. At December 31, 2014 and 2013, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$444,156 and \$838,741, respectively.

Note 7: Operating Leases

The Association leases golf carts, golf maintenance equipment, and copiers under separate noncancelable operating leases. The leases expire in varying periods through March 2018.

Lease expense charged to operations amounts to \$864,121 and \$822,080 for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under operating leases are:

2015	\$ 625,791
2016	448,379
2017	282,742
2018	<u>21,798</u>
Total minimum lease payments	<u>\$ 1,378,710</u>

Bella Vista Village Property Owners Association
Notes to Financial Statements
December 31, 2014 and 2013

Note 8: Employee Benefit Plans

Self-insured Medical Plan

The Association has a self-insurance program for medical and dental coverage for its employees. The Association limits its losses through the use of a separate excess risk policy. Specific individual losses for claims are limited to \$65,000 per participant per year. The Association's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. For the years ended December 31, 2014 and 2013, expense incurred under this plan was \$1,450,771 and \$1,297,689, respectively.

An accrual for losses expected under this program is recorded based upon the Association's estimates of aggregate liability for claims incurred. At December 31, 2014 and 2013, the provision for loss was \$157,391 and \$183,798, respectively. The amount of actual losses incurred could differ materially from the estimates reflected in these financial statements.

Defined Contribution Retirement Plan

The Association has a defined contribution retirement plan covering substantially all full-time employees. The Association's contributions are limited to 5% of total compensation paid to participants during the plan year. Matching contributions by the Association were \$224,589 and \$230,794 for the years ended December 31, 2014 and 2013, respectively.

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Bella Vista Village Property Owners Association
Notes to Financial Statements
December 31, 2014 and 2013

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Money Market				
Mutual Fund	\$ 444,156	\$ 444,156	\$ -	\$ -
Certificates of Deposit	<u>8,383,408</u>	<u>-</u>	<u>8,383,408</u>	<u>-</u>
	<u><u>\$ 8,827,564</u></u>	<u><u>\$ 444,156</u></u>	<u><u>\$ 8,383,408</u></u>	<u><u>\$ -</u></u>
December 31, 2013				
Money Market				
Mutual Fund	\$ 838,741	\$ 838,741	\$ -	\$ -
Certificates of Deposit	<u>9,153,343</u>	<u>-</u>	<u>9,153,343</u>	<u>-</u>
	<u><u>\$ 9,992,084</u></u>	<u><u>\$ 838,741</u></u>	<u><u>\$ 9,153,343</u></u>	<u><u>\$ -</u></u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include a money market mutual fund. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricings services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Level 2 securities include negotiable certificates of deposit. The Association had no Level 3 securities at December 31, 2014 and 2013.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Note 10: Commitments and Contingencies

The Association has performed an internal study to determine the estimated cost to perform necessary upgrades and maintenance on the water system through the year 2028. Management's estimate of these additional costs is approximately \$10,895,000 in 2014 dollars.

Note 11: Future Major Repairs and Replacements

The Association's governing documents do not require funds to be accumulated specifically for future major repair and replacement needs. Maintenance and repairs are funded through membership assessments and various usage fees. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, utilize existing funds, borrow to finance expenditures, or delay major repairs and replacements until funds are available. During 2014 and 2013, no assessments were made specifically for major repairs and replacements.

With the exception of water services, a study to determine the remaining useful lives of the components of common property or estimated costs of future major repairs and replacements has not been completed.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Americans with Disabilities Act Upgrades

In 2012, the POA consulted with an Americans with Disabilities Act (ADA) professional firm to provide an ADA compliance review. This review was performed to identify the upgrades and to assist in prioritizing these upgrades to become fully compliant with ADA requirements. A select number of these identified items are in process and are currently being funded through reserves. Management is in the process of developing a formal plan to address the composite of requirements to be fully ADA compliant. This formal plan will prioritize the needed upgrades and will outline a plan to fund those upgrades. At December 31, 2014, management cannot reasonably estimate the costs of these upgrades.

Bella Vista Village Property Owners Association
Notes to Financial Statements
December 31, 2014 and 2013

Litigation

The Association is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Association.

Major Water Suppliers

During the years ended December 31, 2014 and 2013, the Association purchased water from two unrelated suppliers. The suppliers provided 81% and 19% respectively, of the Association's water in 2014 and 80% and 20% respectively, of the Association's water in 2013.

Note 13: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Bella Vista Village Property Owners Association

Notes to Financial Statements

December 31, 2014 and 2013

Note 14: Allocation of Expenses

2014	Cost of Goods Sold	Operating Expenses	Depreciation	Total
Program Services				
Water utility	\$ 1,995,737	\$ 2,735,821	\$ 1,007,016	\$ 5,738,574
Maintenance	-	1,504,405	94,955	1,599,360
Street	-	443,125	66,279	509,404
Recreation	425,023	8,656,557	1,252,929	10,334,509
Total program services	2,420,760	13,339,908	2,421,179	18,181,847
Management and general				
General and administrative	-	3,885,474	131,117	4,016,591
Total	<u>\$ 2,420,760</u>	<u>\$ 17,225,382</u>	<u>\$ 2,552,296</u>	<u>\$ 22,198,438</u>
2013	Cost of Goods Sold	Operating Expenses	Depreciation	Total
Program Services				
Water utility	\$ 2,009,943	\$ 2,356,662	\$ 1,044,447	\$ 5,411,052
Maintenance	-	1,474,499	83,495	1,557,994
Street	-	406,749	78,305	485,054
Recreation	427,179	8,815,248	1,285,260	10,527,687
Total program services	2,437,122	13,053,158	2,491,507	17,981,787
Management and general				
General and administrative	-	3,928,021	153,675	4,081,696
Total	<u>\$ 2,437,122</u>	<u>\$ 16,981,179</u>	<u>\$ 2,645,182</u>	<u>\$ 22,063,483</u>