

Bella Vista Property Owners Association

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015



Bella Vista Property Owners Association
December 31, 2016 and 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Bella Vista Property Owners Association, which comprise the balance sheets as of December 31, 2016 and 2015 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 Property Owners Association as of December 31, 2016 and 2015, 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

The accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on page 20 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Rogers, Arkansas
April 11, 2017

Bella Vista Property Owners Association

Balance Sheets

December 31, 2016 and 2015

Assets

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,421,692 | \$ 2,398,381 |
| Investments - certificates of deposit | 849,434 | 3,215,313 |
| Debt service sinking fund | 1,076,617 | 902,563 |
| Membership assessments receivable net of allowance; 2016 - \$2,709,383, 2015 - \$2,352,087 | 124,756 | 306,571 |
| Water utilities receivable net of allowance; 2016 - \$4,526, 2015 - \$5,554 | 760,802 | 718,436 |
| Other receivables | | |
| Miscellaneous billing receivables | 51,664 | 20,093 |
| Employee receivables | 2,502 | 816 |
| Interest receivables | 2,284 | 18,660 |
| Member accounts receivable miscellaenous | 29,270 | 46,950 |
| Inventories | 491,489 | 453,516 |
| Prepaid expenses | 208,854 | 142,745 |
| Member lots held for sale, net of estimated expenses | 213,459 | 151,650 |
| | <u>6,232,823</u> | <u>8,375,694</u> |
| Total current assets | | |
| | <u>13,774,773</u> | <u>12,433,197</u> |
| Investments | | |
| | | |
| Property and Equipment, Net of Accumulated Depreciation | <u>47,553,795</u> | <u>47,493,055</u> |
| | | |
| Total assets | <u>\$ 67,561,391</u> | <u>\$ 68,301,946</u> |

Liabilities and Members' Equity

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Current Liabilities | | |
| Current portion of bonds payable (<i>Note 5</i>) | \$ 580,000 | \$ 460,000 |
| Accounts payable | 831,690 | 691,116 |
| Accrued expenses | 1,750,836 | 2,514,906 |
| Members' deposits and prepayments | 996,609 | 523,997 |
| Deferred revenue | <u>826,411</u> | <u>880,717</u> |
| Total current liabilities | 4,985,546 | 5,070,736 |
| Long-term Bonds Payable, Net (<i>Note 5</i>) | <u>6,067,976</u> | <u>6,641,142</u> |
| Total liabilities | <u>11,053,522</u> | <u>11,711,878</u> |
| Members' Equity | | |
| Contributed capital | 32,628,284 | 32,628,284 |
| Cumulative excess of revenue over expenses | | |
| Undesignated | 22,802,968 | 23,059,221 |
| Designated for debt service | <u>1,076,617</u> | <u>902,563</u> |
| Total members' equity | <u>56,507,869</u> | <u>56,590,068</u> |
| Total liabilities and members' equity | <u>\$ 67,561,391</u> | <u>\$ 68,301,946</u> |

Bella Vista Property Owners Association
Statements of Revenues and Expenses
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|--------------------|-------------------|
| Revenue | | |
| Member assessments | \$ 8,160,374 | \$ 8,333,689 |
| Water | 6,913,585 | 6,728,268 |
| Golf cart rentals and green fees | 4,155,613 | 3,955,867 |
| Community and recreation center fees | 810,945 | 901,131 |
| Outdoor activities and recreational vehicle park fees | 644,363 | 599,456 |
| Property income | 531,529 | 428,823 |
| Pro shop clothing and equipment sales | 468,587 | 490,516 |
| Investment return | 369,013 | 290,226 |
| Unrealized gain (loss) on investments | 276,632 | (300,073) |
| Advertising | 133,134 | 63,530 |
| Deferred revenue - water fees | 185,000 | 140,000 |
| Income - City of Bella Vista | 113,720 | 112,711 |
| Golf vending and recreation beverage sales | 97,616 | 70,386 |
| Other recreation | 53,953 | 54,950 |
| Sanitation | 22,704 | 25,652 |
| Interest income - debt service | 121 | 1,935 |
| Other income | 613,464 | 489,690 |
| | 23,550,353 | 22,386,757 |
| Expenses | | |
| Program services | | |
| Operating expenses | 14,117,789 | 12,897,954 |
| Cost of goods sold | 2,661,797 | 2,355,231 |
| Depreciation | 2,375,612 | 2,361,153 |
| | 19,155,198 | 17,614,338 |
| General and administrative | | |
| Operating expenses | 4,301,965 | 4,029,026 |
| Depreciation | 175,389 | 130,541 |
| | 4,477,354 | 4,159,567 |
| | 23,632,552 | 21,773,905 |
| (Deficit) Excess of Revenues Over Expenses | \$ (82,199) | \$ 612,852 |

Bella Vista Property Owners Association
Statements of Changes in Members' Equity
Years Ended December 31, 2016 and 2015

| | Contributed Capital | Undesignated | Designated for Debt Service | Members' Equity |
|--|------------------------|----------------------|--------------------------------|----------------------|
| Balance, January 1, 2015 | \$ 32,628,284 | \$ 22,904,776 | \$ 444,156 | \$ 55,977,216 |
| Designation of debt service for Series 2014 bonds | - | (458,407) | 458,407 | - |
| Excess of revenues over expenses | - | 612,852 | - | 612,852 |
| Balance, December 31, 2015 | 32,628,284 | 23,059,221 | 902,563 | 56,590,068 |
| Designation of debt service for Series 2014 bonds | - | (174,054) | 174,054 | - |
| Deficit of revenues over expenses | - | (82,199) | - | (82,199) |
| Balance, December 31, 2016 | <u>\$ 32,628,284</u> | <u>\$ 22,802,968</u> | <u>\$ 1,076,617</u> | <u>\$ 56,507,869</u> |

Bella Vista Property Owners Association
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Operating Activities | | |
| (Deficit) excess of revenues over expenses | \$ (82,199) | \$ 612,852 |
| Items not requiring (providing) operating activities cash flows | | |
| Depreciation | 2,551,001 | 2,491,694 |
| Net unrealized (gains) losses on investments | (276,632) | 300,073 |
| Amortization of bond issue costs | 14,477 | 18,257 |
| Amortization of discount/premium on issuance of bonds | (7,643) | (7,643) |
| Loss on disposals of property, plant and equipment | 65,033 | 140,765 |
| Changes in | | |
| Membership assessments receivable | 181,815 | (34,427) |
| Water utilities and other receivables | (41,567) | (12,952) |
| Inventories | (37,973) | (67,928) |
| Prepaid expenses | (66,109) | 51,500 |
| Member lots held for sale | (61,809) | (118,783) |
| Accounts payable | 140,574 | 45,032 |
| Accrued expenses | (764,070) | (56,885) |
| Members' deposits and prepayments | 472,612 | (175,972) |
| Deferred revenue | (54,306) | 686,111 |
| | <u>2,033,204</u> | <u>3,871,694</u> |
| Net cash provided by operating activities | | |
| Investing Activities | | |
| Purchases of certificates of deposit | (750,953) | (14,401,466) |
| Purchases of mutual funds | (11,898,712) | - |
| Proceeds from maturity of certificates of deposit | 2,943,281 | 14,196,378 |
| Proceeds from sale of mutual funds | 11,007,319 | - |
| Increase in restricted funds | (174,054) | (458,407) |
| Purchases of property, plant and equipment | (2,727,785) | (2,717,778) |
| Proceeds from sale of property, plant and equipment | 51,011 | 56,320 |
| | <u>(1,549,893)</u> | <u>(3,324,953)</u> |
| Net cash used in investing activities | | |
| Financing Activities | | |
| Principal payments on bonds payable | (460,000) | (65,000) |
| | <u>(460,000)</u> | <u>(65,000)</u> |
| Net cash used in financing activities | | |
| Net Increase in Cash and Cash Equivalents | 23,311 | 481,741 |
| Cash and Cash Equivalents, Beginning of Year | <u>2,398,381</u> | <u>1,916,640</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 2,421,692</u> | <u>\$ 2,398,381</u> |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 208,754 | \$ 137,505 |

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

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

Nature of Operations

The Bella Vista Property Owners Association (the "Association") is a nonprofit association formed on May 18, 1965, under the Bella Vista Declarations and Protective Covenants as filed by the Association and Cooper Communities, Inc. (the "Developer"). Membership in the Association is attained by the purchase of certain property within the area known as Bella Vista, Arkansas and is terminated upon the sale of that property. Lots are platted and sold by the Developer. At December 31, 2016 and 2015, there were 38,968 and 38,976, respectively, platted lots in the Association 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 to members of the Association. Sanitation and street maintenance responsibilities were transferred to the City of Bella Vista (the "City") in 2008.

The Bella Vista Declaration and Protective Covenants 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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2016, the Association's cash accounts exceeded federally insured limits by approximately \$2,000,000.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

Investments and Investment Return

Investments in non-negotiable certificates of deposit are carried at cost. Investments in negotiable certificates of deposit are carried at fair value. Investments in equity securities having a readily determinable fair value and in all debt securities 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 were handled by the Association in accordance with a service agreement with the City for most of 2016. This service agreement was terminated as of December 31, 2016.

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 charged late fees equal to 10% of the balance. Past-due, unpaid accounts that are delinquent 10 days or more will have the water service disconnected.

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 Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

Inventories at December 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|-------------------|-------------------|
| Golf pro shop | \$ 257,018 | \$ 318,889 |
| Mechanic and maintenance | 213,155 | 116,542 |
| Fuel | 12,435 | 11,127 |
| Food and beverage | 3,649 | - |
| Paper and office supplies | 5,232 | 6,958 |
| | <u>\$ 491,489</u> | <u>\$ 453,516</u> |

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.

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, 2016 and 2015.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2016 and 2015

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 2013.

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. 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 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

Note 2: Member Lots Held for Sale

Member lots held for sale, amounting to \$213,459 and \$151,650 at December 31, 2016 and 2015, 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 3: Investments and Investment Return

Investments at December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|----------------------|----------------------|
| Money market mutual fund | \$ 211,627 | \$ 221,425 |
| Negotiable certificates of deposit | 849,434 | 2,487,762 |
| Open-ended mutual funds | <u>13,774,773</u> | <u>13,160,748</u> |
| | <u>\$ 14,835,834</u> | <u>\$ 15,869,935</u> |

Total investment return is comprised of the following:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Interest and dividend income | \$ 369,551 | \$ 290,226 |
| Net realized and unrealized gains (losses) on investments reported at fair value | <u>276,094</u> | <u>(300,073)</u> |
| | <u>\$ 645,645</u> | <u>\$ (9,847)</u> |

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

| | 2016 | 2015 |
|-------------------------------------|---------------|---------------|
| Equipment | \$ 35,937,992 | \$ 36,018,656 |
| Land improvements | 22,806,494 | 21,460,793 |
| Land | 18,684,488 | 18,684,488 |
| Buildings and building improvements | 15,641,520 | 15,404,827 |
| Community centers | 2,521,692 | 2,523,921 |
| Construction in progress | 376,994 | 1,077,465 |
| | 95,969,180 | 95,170,150 |
| Less accumulated depreciation | 48,415,385 | 47,677,095 |
| | \$ 47,553,795 | \$ 47,493,055 |

Note 5: Bonds Payable

The Association has entered into agreements with the Benton County 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 \$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%. Unamortized debt issuance costs based on an imputed interest rate of 0.37% was \$173,732 and \$188,209 at December 31, 2016 and 2015, respectively. 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.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Water Revenue Construction Bonds, Series 2014 (A) | \$ 6,730,000 | \$ 7,190,000 |
| Plus premium on issuance of bonds | 91,708 | 99,351 |
| Less unamortized debt issuance costs | (173,732) | (188,209) |
| Total bonds payable, net of premium and debt issuance costs | 6,647,976 | 7,101,142 |
| Less current maturities | 580,000 | 460,000 |
| | \$ 6,067,976 | \$ 6,641,142 |

Aggregate annual maturities of long-term debt at December 31, 2016, are:

| Year | Principal | Interest | Total |
|-----------|------------------|------------------|------------------|
| 2017 | \$ 580,000 | \$ 187,010 | \$ 767,010 |
| 2018 | 480,000 | 175,750 | 655,750 |
| 2019 | 490,000 | 163,600 | 653,600 |
| 2020 | 505,000 | 148,675 | 653,675 |
| 2021 | 520,000 | 133,300 | 653,300 |
| 2022-2026 | 2,825,000 | 421,595 | 3,246,595 |
| 2027-2031 | 1,330,000 | 46,265 | 1,376,265 |
| Total | \$ 6,730,000 | \$ 1,276,195 | \$ 8,006,195 |

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, 2016 and 2015, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$1,076,617 and \$902,563, respectively.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2016 and 2015

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 December 2020.

Lease expense charged to operations amounts to \$924,874 and \$817,902 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under operating leases are:

| | |
|------------------------------|--------------------------|
| 2017 | \$ 644,185 |
| 2018 | 215,089 |
| 2019 | 54,580 |
| 2020 | <u>32,334</u> |
| Total minimum lease payments | <u><u>\$ 946,188</u></u> |

Note 8: Employee Benefit Plans

Self-insured Medical Plan

The Association offers employee group health and medical insurance through a self-insured plan. Under the group health and medical self-insurance plan, the Association is responsible for annual claims up 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. Further, the Association has purchased reinsurance for claims in excess of this amount. For the years ended December 31, 2016 and 2015, expense incurred under this plan was \$1,202,778 and \$1,483,573, 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, 2016 and 2015, the provision for loss was \$110,045 and \$152,711, respectively. The amount of actual losses incurred could differ materially from the estimates reflected in these financial statements.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

Defined Contribution Retirement Plan

The Association has a defined contribution retirement plan covering substantially all full-time employees. Through December 31, 2016, the Association's contributions were limited to 5% of total compensation paid to participants during the plan year. It was approved to decrease the matching contributions to 4% of total compensation in November 2016, effective January 1, 2017. Matching contributions by the Association were \$235,939 and \$238,642 for the years ended December 31, 2016 and 2015, 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 Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015:

| | Fair Value | Fair Value Measurements Using | | |
|---------------------------------------|----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2016 | | | | |
| Money market mutual fund | \$ 211,627 | \$ 211,627 | \$ - | \$ - |
| Negotiable certificates of deposit | 849,434 | - | 849,434 | - |
| Open-ended mutual funds | <u>13,774,773</u> | <u>-</u> | <u>13,774,773</u> | <u>-</u> |
| | <u>\$ 14,835,834</u> | <u>\$ 211,627</u> | <u>\$ 14,624,207</u> | <u>\$ -</u> |
| December 31, 2015 | | | | |
| Money market mutual fund | \$ 221,425 | \$ 221,425 | \$ - | \$ - |
| Negotiable certificates of deposit | 2,487,762 | - | 2,487,762 | - |
| Open-ended mutual funds | <u>13,160,748</u> | <u>-</u> | <u>13,160,748</u> | <u>-</u> |
| | <u>\$ 15,869,935</u> | <u>\$ 221,425</u> | <u>\$ 15,648,510</u> | <u>\$ -</u> |

Following is a description of the valuation methodologies and inputs used for assets 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 pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2016 and 2015

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 money market mutual funds. 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 and open-ended mutual funds. The Association had no Level 3 securities at December 31, 2016 and 2015.

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 \$6,295,000 in 2016 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 and pass special assessments. The Association may also utilize existing funds, borrow to finance expenditures, or delay major repairs and replacements until funds are available. During 2016 and 2015, no assessments were made specifically for major repairs and replacements.

The Association conducted a study in 2016 to estimate the remaining useful lives and replacement costs of the components of common property. These estimates were compiled by management. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association, has the right, subject to membership approval, to increase regular assessments and pass special assessments. The Association may also delay major repairs and replacements until funds are available.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2016 and 2015

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 necessary upgrades and to assist in prioritizing these upgrades to become fully compliant with ADA requirements. Management identified the first phase of ADA upgrades, solicited bids and selected a contractor to begin work on those upgrades. The first phase of ADA upgrades is nearing completion, the cost of which is currently being funded through reserves. The next phase of upgrades will be identified and likewise funded through reserves. At December 31, 2016, management cannot reasonably estimate the costs of the remaining upgrades.

Major Water Suppliers

During the years ended December 31, 2016 and 2015, the Association purchased water from two unrelated suppliers. The suppliers provided 87% and 13%, respectively, of the Association's water in 2016 and 77% and 23%, respectively, of the Association's water in 2015.

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 are issued.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2016 and 2015

Note 14: Allocation of Expenses

| 2016 | Cost of Goods Sold | Operating Expenses | Depreciation | Total |
|-------------------------------|-------------------------------|-------------------------------|---------------------|----------------------|
| Program Services | | | | |
| Water utility | \$ 2,216,918 | \$ 3,129,962 | \$ 955,930 | \$ 6,302,810 |
| Maintenance | - | 1,550,444 | 141,168 | 1,691,612 |
| Street | - | 397,078 | 53,693 | 450,771 |
| Recreation | 444,879 | 9,040,305 | 1,224,821 | 10,710,005 |
| Total program services | 2,661,797 | 14,117,789 | 2,375,612 | 19,155,198 |
| Management and general | | | | |
| General and administrative | - | 4,301,965 | 175,389 | 4,477,354 |
| Total | <u>\$ 2,661,797</u> | <u>\$ 18,419,754</u> | <u>\$ 2,551,001</u> | <u>\$ 23,632,552</u> |
| | | | | |
| 2015 | Cost of Goods Sold | Operating Expenses | Depreciation | Total |
| Program Services | | | | |
| Water utility | \$ 1,973,337 | \$ 2,331,067 | \$ 965,669 | \$ 5,270,073 |
| Maintenance | - | 1,523,662 | 114,750 | 1,638,412 |
| Street | - | 414,302 | 60,486 | 474,788 |
| Recreation | 381,894 | 8,628,923 | 1,220,248 | 10,231,065 |
| Total program services | 2,355,231 | 12,897,954 | 2,361,153 | 17,614,338 |
| Management and general | | | | |
| General and administrative | - | 4,029,026 | 130,541 | 4,159,567 |
| Total | <u>\$ 2,355,231</u> | <u>\$ 16,926,980</u> | <u>\$ 2,491,694</u> | <u>\$ 21,773,905</u> |

Supplementary Information

Bella Vista Property Owners Association
Schedule of Future Major Repairs and Replacements
(Unaudited)
December 31, 2016

The Association conducted a study in 2016 to estimate the remaining useful lives and the replacement costs of various components of common property.

The following table is based on the study and present significant information about the components of common property:

| Components | Estimated Remaining Useful Lives (in Years) | Estimated 2016 Replacement Costs (Unaudited) | 2017 Funding Requirement (Unaudited) |
|-------------------------------------|--|---|---|
| Equipment | 2 - 40 | \$ 470,286 | \$ 294,176 |
| Land improvements | 2 - 40 | 728,411 | 455,640 |
| Buildings and building improvements | 2 - 40 | 60,724 | 37,984 |
| Community centers | 5 - 40 | <u>75,757</u> | <u>47,408</u> |
| | | <u>\$ 1,335,178</u> | <u>\$ 835,208</u> |

The major items that will be scheduled for replacements as needed and funded from the annual budget are not included in the above information.