

Bella Vista Property Owners Association

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016



Bella Vista Property Owners Association
December 31, 2017 and 2016

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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, 2017 and 2016 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, 2017 and 2016, 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

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 18, 2018

Bella Vista Property Owners Association

Balance Sheets

December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,910,298	\$ 2,421,692
Investments - certificates of deposit	149,000	849,434
Debt service sinking fund	922,257	1,076,617
Membership assessments receivable net of allowance; 2017 - \$33,570, 2016 - \$2,709,383	206,255	124,756
Water utilities receivable net of allowance; 2017 - \$5,351, 2016 - \$4,526	595,394	760,802
Other receivables		
Miscellaneous billing receivables	7,185	51,664
Employee receivables	3,043	2,502
Interest receivables	-	2,284
Advertising receivables	6,825	-
Member accounts receivable miscellaenous	27,484	29,270
Inventories	400,732	491,489
Prepaid expenses	290,946	208,854
Member lots held for sale, net of estimated expenses	263,826	213,459
	<u>4,783,245</u>	<u>6,232,823</u>
Investments	<u>8,702,750</u>	<u>13,774,773</u>
Property and Equipment, Net of Accumulated Depreciation	<u>53,006,478</u>	<u>47,553,795</u>
Total assets	<u>\$ 66,492,473</u>	<u>\$ 67,561,391</u>

Liabilities and Members' Equity

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current portion of bonds payable (<i>Note 5</i>)	\$ 480,000	\$ 580,000
Accounts payable	808,636	831,690
Accrued expenses	1,692,669	1,750,836
Members' deposits and prepayments	581,840	996,609
Deferred revenue	<u>559,677</u>	<u>826,411</u>
Total current liabilities	4,122,822	4,985,546
Long-term Bonds Payable, Net (<i>Note 5</i>)	<u>5,429,811</u>	<u>6,067,976</u>
Total liabilities	<u>9,552,633</u>	<u>11,053,522</u>
Members' Equity		
Contributed capital	32,628,284	32,628,284
Cumulative excess of revenue over expenses		
Undesignated	23,389,297	22,802,968
Designated for debt service	<u>922,259</u>	<u>1,076,617</u>
Total members' equity	<u>56,939,840</u>	<u>56,507,869</u>
Total liabilities and members' equity	<u>\$ 66,492,473</u>	<u>\$ 67,561,391</u>

Bella Vista Property Owners Association
Statements of Revenues and Expenses
Years Ended December 31, 2017 and 2016

	2017	2016
Revenue		
Member assessments	\$ 8,895,460	\$ 8,575,336
Water	7,779,502	6,913,585
Golf cart rentals and green fees	4,077,228	4,155,613
Community and recreation center fees	781,886	810,945
Outdoor activities and recreational vehicle park fees	712,523	644,363
Property income	743,053	531,529
Pro shop clothing and equipment sales	485,526	468,587
Investment return	841,235	369,013
Unrealized gain (loss) on investments	(114,079)	276,094
Advertising	141,977	133,134
Deferred revenue - water fees	-	185,000
Income - City of Bella Vista	11,344	113,720
Food and beverage sales	589,532	97,616
Other recreation	10,927	53,953
Sanitation	39	22,704
Interest income - debt service	4,341	121
Other income	363,456	199,040
	<u>25,323,950</u>	<u>23,550,353</u>
Expenses		
Program services		
Operating expenses	15,115,096	14,117,789
Cost of goods sold	2,943,649	2,661,797
Depreciation	2,507,323	2,375,612
	<u>20,566,068</u>	<u>19,155,198</u>
General and administrative		
Operating expenses	4,174,553	4,301,965
Depreciation	151,358	175,389
	<u>4,325,911</u>	<u>4,477,354</u>
	<u>24,891,979</u>	<u>23,632,552</u>
Excess (Deficit) of Revenues Over Expenses	<u>\$ 431,971</u>	<u>\$ (82,199)</u>

Bella Vista Property Owners Association
Statements of Changes in Members' Equity
Years Ended December 31, 2017 and 2016

	Contributed Capital	Undesignated	Designated for Debt Service	Members' Equity
Balance, January 1, 2016	\$ 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	32,628,284	22,802,968	1,076,617	56,507,869
Designation of debt service for Series 2014 bonds	-	154,358	(154,358)	-
Deficit of revenues over expenses	-	431,971	-	431,971
Balance, December 31, 2017	<u>\$ 32,628,284</u>	<u>\$ 23,389,297</u>	<u>\$ 922,259</u>	<u>\$ 56,939,840</u>

Bella Vista Property Owners Association
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
(Deficit) excess of revenues over expenses	\$ 431,971	\$ (82,199)
Items not requiring (providing) operating activities cash flows		
Depreciation	2,658,681	2,551,001
Net unrealized (gains) losses on investments	114,079	(276,094)
Amortization of bond issue costs	14,478	14,477
Amortization of discount/premium on issuance of bonds	(7,643)	(7,643)
(Gain) loss on disposals of property, plant and equipment	(72,743)	65,033
Changes in		
Membership assessments receivable	(81,499)	181,815
Water utilities and other receivables	206,591	(41,567)
Inventories	90,757	(37,973)
Prepaid expenses	(82,092)	(66,109)
Member lots held for sale	(50,367)	(61,809)
Accounts payable	(23,054)	140,574
Accrued expenses	(58,167)	(764,608)
Members' deposits and prepayments	(414,769)	472,612
Deferred revenue	(266,734)	(54,306)
	<u>2,459,489</u>	<u>2,033,204</u>
Net cash provided by operating activities		
Investing Activities		
Purchases of certificates of deposit	-	(750,953)
Purchases of mutual funds	-	(11,898,712)
Proceeds from maturity of certificates of deposit	295,434	2,943,281
Proceeds from sale of mutual funds	5,362,944	11,007,319
Change in restricted funds	154,360	(174,054)
Purchases of property, plant and equipment	(8,111,899)	(2,727,785)
Proceeds from sale of property, plant and equipment	73,278	51,011
	<u>(2,225,883)</u>	<u>(1,549,893)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on bonds payable	(745,000)	(460,000)
	<u>(745,000)</u>	<u>(460,000)</u>
Net cash used in financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(511,394)	23,311
Cash and Cash Equivalents, Beginning of Year	<u>2,421,692</u>	<u>2,398,381</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,910,298</u>	<u>\$ 2,421,692</u>
Supplemental Cash Flows Information		
Interest paid	\$ 185,729	\$ 208,754

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, there were 38,982 and 38,968, respectively, platted lots in the Association subject to annual membership assessments.

The Association owns and operates golf courses, clubhouses, golf pro shops, recreational facilities, lakes 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. Once common property is conveyed to the Association by the Developer, the Association holds and maintains such common property for the benefit and enjoyment of the membership.

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, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2017, the Association's cash accounts exceeded federally insured limits by approximately \$1,672,000.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

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 annum.

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 were 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 remaining unpaid after the 15th of the month are considered delinquent and are charged a late fee. Accounts remaining unpaid after the 25th of the month are considered past due and are charged a past due penalty. Accounts remaining unpaid five (5) business days after the 25th of the month will be disconnected.

Members' Deposits and Prepayments

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

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

Inventory Pricing

Inventory consists primarily of golf maintenance supplies and merchandise for sale. Costs are determined using average cost methods. Inventories are stated at the lower of cost or net realizable value for 2017 and at lower of cost or market for 2016.

Inventories at December 31, 2017 and 2016 are as follows:

	2017	2016
Golf pro shop	\$ 222,737	\$ 257,018
Mechanic and maintenance	109,010	213,155
Fuel	11,869	12,435
Food and beverage	50,722	3,649
Paper and office supplies	6,394	5,232
	\$ 400,732	\$ 491,489

Property and Equipment

Fixed assets are capitalized at cost, less accumulated depreciation, 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.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016.

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. Self-insured health coverage is described more fully in *Note 8*.

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 2014.

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.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Member Lots Held for Sale

Member lots held for sale, amounting to \$263,826 and \$213,459 at December 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
Money market mutual fund	\$ 5,014,585	\$ 211,627
Cash equivalents - money market	201,015	112,934
Negotiable certificates of deposit	149,000	849,434
Open-ended mutual funds	<u>3,688,165</u>	<u>13,661,839</u>
	<u>\$ 9,052,765</u>	<u>\$ 14,835,834</u>

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 841,235	\$ 369,551
Net realized and unrealized gains (losses) on investments reported at fair value	<u>(114,079)</u>	<u>275,556</u>
	<u>\$ 727,156</u>	<u>\$ 645,107</u>

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2017 and 2016

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 36,941,423	\$ 35,937,992
Land improvements	24,016,452	22,806,494
Land	21,353,993	18,684,488
Buildings and building improvements	17,601,709	15,641,520
Community centers	2,521,692	2,521,692
Construction in progress	1,258,636	376,994
	<u>103,693,905</u>	<u>95,969,180</u>
Less accumulated depreciation	50,687,427	48,415,385
	<u>\$ 53,006,478</u>	<u>\$ 47,553,795</u>

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.

	<u>2017</u>	<u>2016</u>
Water Revenue Construction Bonds, Series 2014 (A)	\$ 5,985,000	\$ 6,730,000
Plus premium on issuance of bonds	84,065	91,708
Less unamortized debt issuance costs	<u>(159,254)</u>	<u>(173,732)</u>
Total bonds payable, net of premium and debt issuance costs	5,909,811	6,647,976
Less current maturities	<u>480,000</u>	<u>580,000</u>
	<u>\$ 5,429,811</u>	<u>\$ 6,067,976</u>

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

(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 \$134,645 and \$173,732 at December 31, 2017 and 2016, 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.

Aggregate annual maturities of long-term debt at December 31, 2017, are:

Year	Principal	Interest	Total
2018	\$ 480,000	\$ 187,010	\$ 667,010
2019	490,000	175,750	665,750
2020	505,000	163,600	668,600
2021	520,000	148,675	668,675
2022	530,000	133,300	663,300
2023-2027	2,910,000	421,595	3,331,595
2028-2029	<u>550,000</u>	<u>46,265</u>	<u>596,265</u>
Total	<u>\$ 5,985,000</u>	<u>\$ 1,276,195</u>	<u>\$ 7,261,195</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 an interest bearing cash account and a non-negotiable certificate of deposit. At December 31, 2017 and 2016, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$922,259 and \$1,076,617, respectively.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2017 and 2016

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 2021.

Lease expense charged to operations amounts to \$888,172 and \$924,874 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under operating leases are:

2018	\$ 534,934
2019	300,600
2020	300,600
2021	<u>266,604</u>
Total minimum lease payments	<u>\$ 1,402,738</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, 2017 and 2016, expense incurred under this plan was \$1,024,155 and \$1,202,778, 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, 2017 and 2016, the provision for loss was \$139,716 and \$110,045, 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, 2017 and 2016

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. The board of directors approved to decrease the matching contributions to 4% of total compensation in November 2016, effective January 1, 2017. Matching contributions made by the Association were \$233,778 and \$235,939 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016

Recurring Measurements

The following table presents the fair value measurements of assets 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, 2017 and 2016:

	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, 2017				
Money market mutual fund	\$ 5,215,600	\$ 5,215,600	\$ -	\$ -
Negotiable certificates of deposit	149,000	-	149,000	-
Open-ended mutual funds	3,688,165	-	3,688,165	-
	<u>\$ 9,052,765</u>	<u>\$ 5,215,600</u>	<u>\$ 3,837,165</u>	<u>\$ -</u>
December 31, 2016				
Money market mutual fund	\$ 324,561	\$ 324,561	\$ -	\$ -
Negotiable certificates of deposit	849,434	-	849,434	-
Open-ended mutual funds	13,661,839	-	13,661,839	-
	<u>\$ 14,835,834</u>	<u>\$ 324,561</u>	<u>\$ 14,511,273</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, 2017.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

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.

Note 10: Commitments and Contingencies

The Association had the University of Arkansas perform a study to determine the estimated cost to perform necessary upgrades and maintenance on the water system through the year 2028. Based on this study, no additional funding is required at this time.

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 2017 and 2016, no assessments were made specifically for major repairs and replacements.

The Association conducted a study in 2017 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, 2017 and 2016

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, 2017, management cannot reasonably estimate the costs of the remaining upgrades.

Major Water Suppliers

During the years ended December 31, 2017 and 2016, the Association purchased water from two unrelated suppliers. The suppliers provided 90% and 10%, respectively, of the Association's water in 2017 and 87% and 13%, respectively, of the Association's water in 2016.

Note 13: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2017, for not-for-profits that are conduit debt obligors, and any interim periods within annual reporting periods that begin after December 15, 2018. The Association is in the process of evaluating the impact the amendment will have on the financial statements.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2017 and 2016

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2018 for not-for-profits that are conduit debt obligors, and any interim periods within annual reporting periods that begin after December 15, 2018. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 14: Subsequent Events

Subsequent events have been evaluated through April 18, 2018, which is the date the financial statements are issued.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2017 and 2016

Note 15: Allocation of Expenses

Expenses related to providing services are as follows:

2017	Cost of Goods Sold	Operating Expenses	Depreciation	Total
Program Services				
Water utility	\$ 2,234,906	\$ 2,675,725	\$ 977,070	\$ 5,887,701
Maintenance		1,294,350	108,903	1,403,253
Street	-	529,427	41,586	571,013
Recreation	708,743	10,615,594	1,379,764	12,704,101
Total program services	2,943,649	15,115,096	2,507,323	20,566,068
Management and general				
General and administrative	-	4,174,553	151,358	4,325,911
Total	<u>\$ 2,943,649</u>	<u>\$ 19,289,649</u>	<u>\$ 2,658,681</u>	<u>\$ 24,891,979</u>

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>

Supplementary Information

Bella Vista Property Owners Association
Schedule of Future Major Repairs and Replacements
(Unaudited)
December 31, 2017

The Association conducted a study in 2017 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 2017 Replacement Costs (Unaudited)	2018 Funding Requirement (Unaudited)
Equipment	2 - 40	\$ 616,560	\$ 431,836
Land improvements	2 - 40	878,412	615,235
Buildings and building improvements	2 - 40	90,725	63,543
Community centers	5 - 40	83,165	58,248
		<u>\$ 1,668,862</u>	<u>\$ 1,168,862</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.