

# **Bella Vista Property Owners Association**

Independent Auditor's Reports and Financial Statements

December 31, 2018 and 2017



**Bella Vista Property Owners Association**  
**December 31, 2018 and 2017**

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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, 2018 and 2017, and the related statements of revenues and expenses, functional 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, 2018 and 2017, 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.

***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2018, the entity adopted new accounting guidance regarding recognition of revenue with customers. Our opinion is not modified with respect to this matter.

***Other Matter***

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements 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  
June 27, 2019

# Bella Vista Property Owners Association

## Balance Sheets

December 31, 2018 and 2017

### Assets

	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,574,386	\$ 1,910,298
Investments - certificates of deposit	149,000	149,000
Debt service sinking fund	939,154	922,257
Membership assessments receivable net of allowance; 2018 - \$49,417, 2017 - \$33,570	152,111	206,255
Water utilities receivable net of allowance; 2018 - \$3,039, 2017 - \$5,351	563,627	595,394
Other receivables		
Miscellaneous billing receivables	19,748	7,185
Employee receivables	4,483	3,043
Lot sale receivables	11,000	-
Keg deposit receivables	2,085	-
Advertising receivables	6,928	6,825
Member accounts receivable miscellaenous	54,030	27,484
Inventories	512,023	400,732
Prepaid expenses	269,286	290,946
Member lots held for sale, net of estimated expenses	<u>225,222</u>	<u>263,826</u>
 Total current assets	 <u>4,483,083</u>	 <u>4,783,245</u>
 <b>Investments</b>	 <u>1,262,167</u>	 <u>8,702,750</u>
 <b>Property and Equipment, Net of Accumulated Depreciation</b>	 <u>58,842,306</u>	 <u>53,006,478</u>
 Total assets	 <u>\$ 64,587,556</u>	 <u>\$ 66,492,473</u>

## Liabilities and Members' Equity

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current portion of bonds payable ( <i>Note 6</i> )	\$ 490,000	\$ 480,000
Accounts payable	567,895	808,636
Accrued expenses	1,699,866	1,692,669
Environmental expense	1,666,221	-
Members' deposits	336,191	327,770
Contract liability	<u>1,407,555</u>	<u>813,747</u>
Total current liabilities	6,167,728	4,122,822
<b>Long-term Bonds Payable, Net (<i>Note 6</i>)</b>	<u>4,946,645</u>	<u>5,429,811</u>
Total liabilities	<u>11,114,373</u>	<u>9,552,633</u>
<b>Members' Equity</b>		
Contributed capital	32,628,284	32,628,284
Cumulative excess of revenue over expenses		
Undesignated	19,905,745	23,389,297
Designated for debt service	<u>939,154</u>	<u>922,259</u>
Total members' equity	<u>53,473,183</u>	<u>56,939,840</u>
Total liabilities and members' equity	<u>\$ 64,587,556</u>	<u>\$ 66,492,473</u>

**Bella Vista Property Owners Association**  
**Statements of Revenues and Expenses**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Revenue</b>		
Member assessments	\$ 8,775,811	\$ 8,895,460
Water	8,581,210	7,779,502
Golf cart rentals and green fees	3,943,024	4,077,228
Community and recreation center fees	725,127	781,886
Outdoor activities and recreational vehicle park fees	742,110	712,523
Property income	701,606	743,053
Pro shop clothing and equipment sales	507,769	485,526
Investment return	10,015	841,235
Unrealized gain (loss) on investments	65,135	(114,079)
Advertising	155,838	141,977
Income - City of Bella Vista	11,903	11,344
Food and beverage sales	1,690,424	589,532
Other recreation	21,323	10,927
Sanitation	-	39
Interest income - debt service	9,797	4,341
Other income	96,182	363,456
	<u>26,037,274</u>	<u>25,323,950</u>
<b>Expenses</b>		
Program services		
Operating expenses	16,243,644	15,115,096
Cost of goods sold	3,463,428	2,943,649
Depreciation	2,778,484	2,507,323
	<u>22,485,556</u>	<u>20,566,068</u>
General and administrative		
Operating expenses	5,221,078	4,174,553
Environmental expense	1,666,221	-
Depreciation	131,076	151,358
	<u>7,018,375</u>	<u>4,325,911</u>
	<u>29,503,931</u>	<u>24,891,979</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	<u>\$ (3,466,657)</u>	<u>\$ 431,971</u>

**Bella Vista Property Owners Association**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2018 and 2017**

	2018					Support Services	
	Program Services				Total Program Services	Management and General	Total Support Services
	Water Utilities	Maintenance	Streets	Recreation			
Salaries and expenses	\$ 1,073,812	\$ 1,155,719	\$ 215,133	\$ 5,144,346	\$ 7,589,010	\$ 2,341,718	\$ 2,341,718
Employee benefits	258,445	50,758	12,680	173,267	495,150	1,282,556	1,282,556
Payroll taxes	87,311	93,905	16,937	469,870	668,023	185,666	185,666
Cost of goods sold	2,409,205	-	-	1,054,223	3,463,428	-	-
Depreciation	1,036,222	138,787	27,964	1,575,511	2,778,484	131,076	131,076
Interest	87,892	84,614	-	56	172,562	-	-
Repairs and maintenance	225,133	129,573	75,732	759,714	1,190,152	6,888	6,888
Supplies	265,220	68,965	18,746	948,848	1,301,779	88,366	88,366
Insurance	116,177	66,584	39,139	327,976	549,876	40,447	40,447
Utilities	101,965	23,502	18,199	862,296	1,005,962	119,151	119,151
Non-capital equipment	149,993	35,729	3,601	394,609	583,932	65,546	65,546
MAC allocation	464,924	(356,437)	(108,487)	-	-	-	-
Occupancy	257,809	13,409	7,985	291,837	571,040	53,847	53,847
Lease expense	-	-	-	822,737	822,737	-	-
Travel	4,666	182	-	25,074	29,922	20,582	20,582
Environmental expense	-	-	-	-	-	1,666,221	1,666,221
Other expenses	408,260	34,563	32,889	787,787	1,263,499	1,016,311	1,016,311
Total expenses included in the expense section on the statement of activities	<u>\$ 6,947,034</u>	<u>\$ 1,539,853</u>	<u>\$ 360,518</u>	<u>\$ 13,638,151</u>	<u>\$ 22,485,556</u>	<u>\$ 7,018,375</u>	<u>\$ 7,018,375</u>

See Notes to Financial Statements



**Bella Vista Property Owners Association**  
**Statements of Functional Expenses (Continued)**  
**Years Ended December 31, 2018 and 2017**

	2017 Program Services				Support Services		
	Water Utilities	Maintenance	Streets	Recreation	Total Program Services	Management and General	Total Support Services
Salaries and expenses	\$ 1,033,042	\$ 1,039,843	\$ 218,189	\$ 4,510,440	\$ 6,801,514	\$ 2,287,852	\$ 2,287,852
Employee benefits	201,400	167,786	26,682	537,465	933,333	380,160	380,160
Payroll taxes	76,249	82,635	17,688	386,588	563,160	167,447	167,447
Cost of goods sold	2,246,299	-	-	697,350	2,943,649	-	-
Depreciation	977,070	132,318	41,586	1,356,349	2,507,323	151,358	151,358
Interest	95,472	91,912	-	(14)	187,370	-	-
Repairs and maintenance	213,269	90,029	65,259	810,263	1,178,820	3,824	3,824
Supplies	244,653	53,976	23,912	922,159	1,244,700	87,754	87,754
Insurance	110,867	53,546	24,375	298,445	487,233	33,674	33,674
Utilities	95,739	21,707	16,317	760,455	894,218	118,635	118,635
Non-capital equipment	29,139	38,729	87,528	244,523	399,919	66,554	66,554
MAC allocation	385,083	(267,520)	(117,563)	-	-	-	-
Occupancy	241,316	13,660	7,302	293,385	555,663	46,251	46,251
Lease expense	-	-	-	754,959	754,959	-	-
Travel	1,471	355	-	22,930	24,756	15,406	15,406
Other expenses	333,108	30,672	42,175	683,496	1,089,451	966,996	966,996
<b>Total expenses included in the expense section on the statement of activities</b>	<b><u>\$ 6,284,177</u></b>	<b><u>\$ 1,549,648</u></b>	<b><u>\$ 453,450</u></b>	<b><u>\$ 12,278,793</u></b>	<b><u>\$ 20,566,068</u></b>	<b><u>\$ 4,325,911</u></b>	<b><u>\$ 4,325,911</u></b>

See Notes to Financial Statements

**Bella Vista Property Owners Association**  
**Statements of Changes in members' Equity**  
**Years Ended December 31, 2018 and 2017**

	Contributed Capital	Undesignated	Designated for Debt Service	Members' Equity
<b>Balance, January 1, 2017</b>	\$ 32,628,284	\$ 22,802,968	\$ 1,076,617	\$ 56,507,869
Designation of debt service for Series 2014 bonds	-	154,358	(154,358)	-
Excess of revenues over expenses	-	431,971	-	431,971
<b>Balance, December 31, 2017</b>	32,628,284	23,389,297	922,259	56,939,840
Designation of debt service for Series 2014 bonds	-	(16,895)	16,895	-
Deficit of revenues over expenses	-	(3,466,657)	-	(3,466,657)
<b>Balance, December 31, 2018</b>	<u>\$ 32,628,284</u>	<u>\$ 19,905,745</u>	<u>\$ 939,154</u>	<u>\$ 53,473,183</u>

**Bella Vista Property Owners Association**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
(Deficit) excess of revenues over expenses	\$ (3,466,657)	\$ 431,971
Items not requiring (providing) operating activities cash flows		
Depreciation	2,909,560	2,658,681
Net unrealized (gains) losses on investments	(65,135)	114,079
Amortization of bond issue costs	14,477	14,478
Amortization of discount/premium on issuance of bonds	(7,643)	(7,643)
Gain on disposals of property, plant and equipment	(41,273)	(72,743)
Changes in		
Membership assessments receivable	54,144	(81,499)
Water utilities and other receivables	(21,970)	206,591
Inventories	(111,291)	90,757
Prepaid expenses	21,660	(82,092)
Member lots held for sale	38,604	(50,367)
Accounts payable	(240,741)	(23,054)
Accrued expenses	1,673,418	(58,167)
Members' deposits and prepayments	8,421	(414,769)
Contract liability	593,808	(266,734)
	<u>1,359,382</u>	<u>2,459,489</u>
<b>Investing Activities</b>		
Proceeds from maturity of certificates of deposit	-	295,434
Proceeds from sale of mutual funds	7,505,718	5,362,944
Change in restricted funds	(16,897)	154,360
Purchases of property, plant and equipment	(8,753,196)	(8,111,899)
Proceeds from sale of property, plant and equipment	49,081	73,278
	<u>(1,215,294)</u>	<u>(2,225,883)</u>
<b>Financing Activities</b>		
Principal payments on bonds payable	(480,000)	(745,000)
	<u>(480,000)</u>	<u>(745,000)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(335,912)	(511,394)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,910,298</u>	<u>2,421,692</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,574,386</u>	<u>\$ 1,910,298</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 168,625	\$ 185,729

# **Bella Vista Property Owners Association**

## **Notes to Financial Statements**

**December 31, 2018 and 2017**

### **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, 2018 and 2017, there were 39,015 and 38,982, 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, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2018, the Association's cash accounts exceeded federally insured limits by approximately \$1,223,000.

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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 and 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 are stated at the amount of consideration from members, of which the Association has an unconditional right to receive plus any accrued and unpaid interest. Assessment billings are due on the first of each month. 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. Water utilities receivable are stated at the amount of consideration from members, of which the Association has an unconditional right to receive plus any accrued and unpaid penalties.

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

***Members' Deposits***

Members' deposits are generally a deposit for water service.

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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.

Inventories at December 31, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Golf pro shop	\$ 300,615	\$ 222,737
Mechanic and maintenance	131,110	109,010
Fuel	14,466	11,869
Food and beverage	59,460	50,722
Paper and office supplies	6,372	6,394
	<u>\$ 512,023</u>	<u>\$ 400,732</u>

***Property and Equipment***

Property and equipment acquisitions are stated 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, 2018 and 2017**

***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, 2018 and 2017.

***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 10*.

***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.

***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, 2018 and 2017

#### **Revenue**

Revenue is recognized as the Association satisfies performance obligations under its contracts. Revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Association expects to be entitled in exchange for providing goods or services. The Association determines the transaction price based on standard charges for goods and services provided. The Association determines its estimates based upon contractual agreements, its discount policies and historical experience.

#### **Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of revenues and expenses. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, and management and general categories based on the time or expenses incurred and other methods.

#### **Change in Accounting Principle**

On January 1, 2018, the Association adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers not completed at January 1, 2018. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Association expects to be entitled in exchange for those goods or services. The amount to which the Association expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services. Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements. The adoption of ASU 2014-9 did not result in a change to the timing of revenue recognition.

#### **Note 2: Revenue from Contracts with Members**

*Member Assessments Revenue* – Revenue from contracts with members for monthly assessments is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing amenities to the members. Revenue is recognized as performance obligations are satisfied, which is ratable over time. Generally, the Association bills members monthly.

*Water Sales Revenue* – Revenue from contracts with members for monthly water service is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing water service to the members. Revenue is recognized as the performance obligations are satisfied based on water usage over time. Generally, the Association bills members monthly.



**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

*Food and Beverage Revenue* – Performance obligations are determined based on the nature of the goods or services provided by the Association in accordance with the contract. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to customers at a single point in time and the Association does not believe it is required to provide additional goods or services related to that sale.

*Rental and lease Revenue* – Revenue from contracts of rental of property is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing property to be used. Revenue is recognized as the performance obligations are satisfied.

*Other Revenue* – Performance obligations are determined based on the nature of the goods or services provided by the Association in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Association believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to customers at a single point in time and the Association does not believe it is required to provide additional goods or services related to that sale.

***Significant Judgments***

The Association determines the transaction price based on standard charges for goods and services provided, discounts provided in accordance with the Association's policy and implicit price concessions provided to customers. The Association determines its estimates of explicit price concessions based on contractual agreements and its discount policies. The Association determines its estimate of implicit price concessions based on its historical collection experience with each class of customers.

***Contract Liabilities***

Contract liabilities consist primarily of assessments and membership dues paid in advance.

**Note 3: Member Lots Held for Sale**

Member lots held for sale, amounting to \$225,222 and \$263,826 at December 31, 2018 and 2017, 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.

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 4: Investments and Investment Return**

Investments at December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Money market mutual fund	\$ 468,309	\$ 5,014,585
Cash equivalents - money market	201,015	201,015
Negotiable certificates of deposit	149,000	149,000
Open-ended mutual funds	<u>1,197,171</u>	<u>3,688,165</u>
	<u>\$ 2,015,495</u>	<u>\$ 9,052,765</u>

Total investment return is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 10,015	\$ 841,235
Net realized and unrealized gains (losses) on investments reported at fair value	<u>65,135</u>	<u>(114,079)</u>
	<u>\$ 75,150</u>	<u>\$ 727,156</u>

# Bella Vista Property Owners Association

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 5: Property and Equipment

Property and equipment at December 31 consists of:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 38,073,322	\$ 36,941,423
Land improvements	25,004,212	24,016,452
Land	21,353,993	21,353,993
Buildings and building improvements	20,067,332	17,601,709
Community centers	2,521,692	2,521,692
Construction in progress	5,148,221	1,258,636
	<u>112,168,772</u>	<u>103,693,905</u>
Less accumulated depreciation	<u>53,326,466</u>	<u>50,687,427</u>
	<u>\$ 58,842,306</u>	<u>\$ 53,006,478</u>

### Note 6: 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>2018</u>	<u>2017</u>
Water Revenue Construction Bonds, Series 2014 (A)	\$ 5,505,000	\$ 5,985,000
Plus premium on issuance of bonds	76,422	84,065
Less unamortized debt issuance costs	<u>(144,777)</u>	<u>(159,254)</u>
Total bonds payable, net of premium and debt issuance costs	5,436,645	5,909,811
Less current maturities	<u>490,000</u>	<u>480,000</u>
	<u>\$ 4,946,645</u>	<u>\$ 5,429,811</u>

# Bella Vista Property Owners Association

## Notes to Financial Statements

December 31, 2018 and 2017

- (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 \$144,777 and \$159,254 at December 31, 2018 and 2017, respectively. The proceeds of such bonds were 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, 2018, are:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 490,000	\$ 174,470	\$ 664,470
2020	505,000	159,770	664,770
2021	520,000	144,620	664,620
2022	530,000	129,020	659,020
2023	550,000	113,120	663,120
2024-2029	<u>2,910,000</u>	<u>316,630</u>	<u>3,226,630</u>
Total	<u>\$ 5,505,000</u>	<u>\$ 1,037,630</u>	<u>\$ 6,542,630</u>

### Note 7: Restricted Funds

Restricted funds result from requirements of the water revenue refunding 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, 2018 and 2017, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$939,154 and \$922,257, respectively.

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 8: Liquidity and Availability**

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of December 31, 2018 and 2017, comprise the following:

	<b>2018</b>	<b>2017</b>
Total financial assets	\$ 3,701,774	\$ 4,091,567
Funds designated for debt service	939,154	922,257
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,762,620	\$ 3,169,310

The Association manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Association has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The Association has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the Association forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

**Note 9: 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 \$902,780 and \$888,172 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under operating leases are:

2019	\$ 401,437
2020	401,437
2021	370,098
2022	103,494
Total minimum lease payments	\$ 1,276,466

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 10: 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, 2018 and 2017, expense incurred under this plan was \$1,395,774 and \$1,024,155, 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, 2018 and 2017, the provision for loss was \$149,418 and \$139,716, 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 matching contributions are limited to 5% of total compensation paid to participants during the plan year. Matching contributions made by the Association were \$300,444 and \$233,778 for the years ended December 31, 2018 and 2017, respectively.

**Note 11: 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, 2018 and 2017**

***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, 2018 and 2017:

	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, 2018				
Money market mutual fund	\$ 468,309	\$ 468,309	\$ -	\$ -
Negotiable certificates of deposit	149,000	-	149,000	-
Open-ended mutual funds	1,197,171	-	1,197,171	-
	<u>\$ 1,814,480</u>	<u>\$ 468,309</u>	<u>\$ 1,346,171</u>	<u>\$ -</u>
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>

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, 2018.

**Bella Vista Property Owners Association**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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 12: 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 13: 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 2018 and 2017, no assessments were made specifically for major repairs and replacements.

The Association conducted a study in 2018 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, 2018 and 2017**

**Note 14: 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, 2018, management cannot reasonably estimate the costs of the remaining upgrades.

***Major Water Suppliers***

During the years ended December 31, 2018 and 2017, the Association purchased water from two unrelated suppliers. The suppliers provided 92% and 8%, respectively, of the Association's water in 2018 and 90% and 10%, respectively, of the Association's water in 2017.

***Environmental Matter***

The Association is the subject of on-going claims regarding an underground fire at the site of a stump dump on Trafalgar Road (Site).

On May 3, 2019, the Association entered into an administrative order with the Arkansas Department of Environmental Quality (ADEQ) to conduct the work necessary to extinguish, stabilize and restore the site of the stump dump fire. The Association has agreed to the following terms: 1.) Submit detailed plans for the remedial action to ADEQ for review prior to beginning work at the Site. 2.) Permanent control, abatement, extinction of the fire at the site within 30 days after the Association's contractors mobilize at the Site. 3.) Site stabilization as soon as possible after the fire is extinguished. 4.) Submit detailed plans for the Site restoration action to ADEQ for review sixty days after the site is stabilized. 5.) Beneficial restoration of the Site after ADEQ review of the plan.

The Association has planned for the financial commitment required by the administrative order and can commit to spend up to four million dollars during 2019 to execute this administrative order. The Association has recorded a liability of \$1,666,221 related to this order in the financial statements. The liability is based upon information updated from third parties. The Association can extinguish the fire and remediate the Site as required by the administrative order using the committed funds.

# **Bella Vista Property Owners Association**

## **Notes to Financial Statements**

**December 31, 2018 and 2017**

The Association expects to have remaining funds to use for Site restoration as required by the administrative order. Because the scope and expense of the Site restoration cannot be known at this time, the timing of the Site restoration will take into consideration the Association's financial situation, as reviewed by the ADEQ. In the event funds are unavailable and the ADEQ requires expeditious Site restoration, the ADEQ may, in its discretion, elect to take over the Site restoration work.

As a part of the administrative order for the Trafalgar Road Remedial Action, the ADEQ and the POA have agreed to fully cooperate with the other concerning the recovery of contributions from other potentially responsible parties for expenditures. Related to the fire, the POA has begun the process to file insurance claims for the recovery of funds spent. Additionally, the Association intends to acquire ownership or permanent control of the site after resolving claims against the responsible parties.

### ***Investments***

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

## **Note 15: Future Change in Accounting Principle**

### ***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 Association 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.

# **Bella Vista Property Owners Association**

## **Notes to Financial Statements**

**December 31, 2018 and 2017**

### **Note 16: Subsequent Events**

Subsequent events have been evaluated through June 27, 2019, which is the date the financial statements are issued.

## **Supplementary Information**

**Bella Vista Property Owners Association**  
**Schedule of Future Major Repairs and Replacements**  
**(Unaudited)**  
**December 31, 2018**

The Association conducted a study in 2018 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:

<b>Components</b>	<b>Estimated Remaining Useful Lives (in Years)</b>	<b>Estimated 2018 Replacement Costs (Unaudited)</b>	<b>2019 Funding Requirement (Unaudited)</b>
Equipment	2 - 40	\$ 790,853	\$ 585,255
Land improvements	2 - 40	914,648	676,866
Buildings and building improvements	2 - 40	134,631	99,631
Community centers	5 - 40	83,163	61,543
		<u>\$ 1,923,295</u>	<u>\$ 1,423,295</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.