Bella Vista Property Owners Association

Independent Auditor’s Reports and Financial Statements

December 31, 2019 and 2018

Bella Vista Property Owners Association
December 31, 2019 and 2018

Contents

BKD LLP
CPAs & Advisors

809 S. 52nd Street, Suite A // P.O. Box 1893 // Rogers, AR 72757-1893
479.845.0270 // fax 479.845.0840 // bkd.com

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, 2019 and 2018, 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, 2019 and 2018, 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 2019, the entity adopted new accounting guidance regarding leases (Topic 842). 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
April 29, 2020

Bella Vista Property Owners Association

Balance Sheets

December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 1,435,296	$ 1,574,386
Investments - certificates of deposit	-	149,000
Restricted cash	930,167	939,154
Membership assessments receivable net of allowance; 2019 - $45,598, 2018 - $49,417	152,840	152,111
Water utilities receivable net of allowance; 2019 - $3,164, 2018 - $3,039	561,970	563,627
Other receivables		
Miscellaneous billing receivables	12,309	19,748
Employee assistance fund receivable	3,522	4,483
Lot sale receivables	40,316	11,000
Keg deposit receivables	2,080	2,085
Advertising receivables	2,335	6,928
Tournament receivables	707	-
Third party delivery service receivables	1,422	-
Member accounts receivable miscellaenous	127,816	54,030
Inventories	588,616	512,023
Prepaid expenses	161,726	269,286
Member lots held for sale, net of estimated expenses	20,334	225,222
Total current assets	4,041,456	4,483,083
Investments, Noncurrent	-	1,262,167
Property and Equipment, Net of Accumulated Depreciation	55,480,150	58,842,306
Right-of-Use Assets - Operating Leases	985,404	-
Total assets	$ 60,507,010	$ 64,587,556

Liabilities and Members’ Equity

	2019	2018
Current Liabilities		
Current portion of bonds payable *(Note 6)*	$ 505,000	$ 490,000
Current portion of operating lease liabilities	535,986	-
Accounts payable	519,155	567,895
Accrued expenses	1,892,099	1,699,866
Environmental expense	-	1,666,221
Members' deposits	330,064	336,191
Contract liability	1,126,947	1,407,555
Total current liabilities	4,909,251	6,167,728
Other Liabilities		
Long-term debt, net	4,448,480	4,946,645
Operating lease liabilities	449,418	-
Total liabilities	9,807,149	11,114,373
Members' Equity		
Contributed capital	32,628,284	32,628,284
Cumulative excess of revenue over expenses		
Undesignated	17,141,410	19,905,745
Designated for debt service	930,167	939,154
Total members' equity	50,699,861	53,473,183
Total liabilities and members' equity	$ 60,507,010	$ 64,587,556

Bella Vista Property Owners Association

Statements of Revenues and Expenses

Years Ended December 31, 2019 and 2018

	2019	2018
Revenue		
Member assessments	$ 8,970,957	$ 8,775,811
Water	8,363,732	8,581,210
Golf cart rentals and green fees	3,787,668	3,943,024
Community and recreation center fees	762,304	725,127
Outdoor activities and recreational vehicle park fees	805,284	742,110
Property income	1,225,187	701,606
Pro shop clothing and equipment sales	498,932	507,769
Investment (loss) return, net	(263)	10,015
Unrealized gain (loss) on investments	-	65,135
Advertising	159,033	155,838
Income - City of Bella Vista	12,178	11,903
Food and beverage sales	2,089,717	1,690,424
Other recreation	32,589	21,323
Interest income - debt service	13,220	9,797
Other income	1,034,994	96,182
Total revenue	27,755,532	26,037,274
Expenses		
Program services		
Operating expenses	14,976,002	16,243,644
Cost of goods sold	3,516,031	3,463,428
Depreciation	3,165,801	2,778,484
Total program services	21,657,834	22,485,556
General and administrative		
Operating expenses	5,732,896	5,221,078
Environmental expense	2,999,157	1,666,221
Depreciation	138,967	131,076
Total general and administrative	8,871,020	7,018,375
Total expenses	30,528,854	29,503,931
Deficiency of Revenues Over Expenses	$ (2,773,322)	$ (3,466,657)

Bella Vista Property Owners Association

Statements of Functional Expenses

Years Ended December 31, 2019 and 2018

	2019							
	Program Services					Support Services		
	Water Utilities	Maintenance	Streets	Recreation	Total Program Services	Management and General	Total Support Services	Total
Salaries and expenses	$ 967,431	$ 1,102,180	$ 198,467	$ 5,060,788	$ 7,328,866	$ 2,296,340	$ 2,296,340	$ 9,625,206
Employee benefits	208,264	57,565	9,401	170,370	445,600	1,201,492	1,201,492	1,647,092
Payroll taxes	70,212	87,648	16,767	456,378	631,005	166,652	166,652	797,657
Cost of goods sold	2,310,683	-	-	1,205,416	3,516,099	-	-	3,516,099
Depreciation	1,254,036	129,896	25,282	1,756,587	3,165,801	138,967	138,967	3,304,768
Interest	80,401	77,403	-	-	157,804	1,825	1,825	159,629
Repairs and maintenance	190,795	74,419	67,713	818,873	1,151,800	(94,448)	(94,448)	1,057,352
Supplies	304,845	60,802	16,950	951,991	1,334,588	82,281	82,281	1,416,869
Financial and administration allocation	80,930	-	-	(80,930)	-	-	-	-
Insurance	131,743	26,160	10,474	68,536	236,913	392,157	392,157	629,070
Utilities	101,654	22,181	16,992	813,205	954,032	114,118	114,118	1,068,150
Non-capital equipment	23,980	16,887	5,218	223,420	269,505	17,399	17,399	286,904
MAC allocation	451,672	(342,218)	(109,454)	-	-	-	-	-
Occupancy	284,876	863	-	74,442	360,181	343,683	343,683	703,864
Lease expense	-	-	-	780,271	780,271	-	-	780,271
Travel	4,791	38	-	21,633	26,462	23,980	23,980	50,442
Environmental expense	-	-	-	-	-	2,999,157	2,999,157	2,999,157
Other expenses	496,682	39,374	5,829	757,022	1,298,907	1,187,417	1,187,417	2,486,324
Total expenses included in the expense section on the statement of activities	$ 6,962,995	$ 1,353,198	$ 263,639	$ 13,078,002	$ 21,657,834	$ 8,871,020	$ 8,871,020	$ 30,528,854

See Notes to Financial Statements

Bella Vista Property Owners Association

Statements of Functional Expenses (Continued)

Years Ended December 31, 2019 and 2018

2018

	Program Services					Support Services		
	Water Utilities	Maintenance	Streets	Recreation	Total Program Services	Management and General	Total Support Services	Total
Salaries and expenses	$ 1,073,812	$ 1,155,719	$ 215,133	$ 5,144,346	$ 7,589,010	$ 2,341,718	$ 2,341,718	$ 9,930,728
Employee benefits	258,445	50,758	12,680	173,267	495,150	1,282,556	1,282,556	1,777,706
Payroll taxes	87,311	93,905	16,937	469,870	668,023	185,666	185,666	853,689
Cost of goods sold	2,409,205	-	-	1,054,223	3,463,428	-	-	3,463,428
Depreciation	1,036,222	138,787	27,964	1,575,511	2,778,484	131,076	131,076	2,909,560
Interest	87,892	84,614	-	56	172,562	-	-	172,562
Repairs and maintenance	225,133	129,573	75,732	759,714	1,190,152	6,888	6,888	1,197,040
Supplies	265,220	68,965	18,746	948,848	1,301,779	88,366	88,366	1,390,145
Insurance	116,177	66,584	39,139	327,976	549,876	40,447	40,447	590,323
Utilities	101,965	23,502	18,199	862,296	1,005,962	119,151	119,151	1,125,113
Non-capital equipment	149,993	35,729	3,601	394,609	583,932	65,546	65,546	649,478
MAC allocation	464,924	(356,437)	(108,487)	-	-	-	-	-
Occupancy	257,809	13,409	7,985	291,837	571,040	53,847	53,847	624,887
Lease expense	-	-	-	822,737	822,737	-	-	822,737
Travel	4,666	182	-	25,074	29,922	20,582	20,582	50,504
Environmental expense	-	-	-	-	-	1,666,221	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	2,279,810
Total expenses included in the expense section on the statement of activities	$ 6,947,034	$ 1,539,853	$ 360,518	$ 13,638,151	$ 22,485,556	$ 7,018,375	$ 7,018,375	$ 29,503,931

See Notes to Financial Statements

Bella Vista Property Owners Association

Statements of Changes in Members' Equity

Years Ended December 31, 2019 and 2018

	Contributed Capital	Undesignated	Designated for Debt Service	Members' Equity
Balance, January 1, 2018	$32,628,284	$ 23,389,297	$ 922,259	$ 56,939,840
Designation of debt service for Series 2014 bonds	-	(16,895)	16,895	-
Excess of revenues over expenses	-	(3,466,657)	-	(3,466,657)
Balance, December 31, 2018	32,628,284	19,905,745	939,154	53,473,183
Designation of debt service for Series 2014 bonds	-	8,987	(8,987)	-
Deficit of revenues over expenses	-	(2,773,322)	-	(2,773,322)
Balance, December 31, 2019	$32,628,284	$ 17,141,410	$ 930,167	$ 50,699,861

Bella Vista Property Owners Association

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
(Deficit) of revenues over expenses	$ (2,773,322)	$ (3,466,657)
Items not requiring (providing) operating activities cash flows		
Depreciation	3,304,768	2,909,560
Net unrealized losses (gains) on investments	-	(65,135)
Amortization of bond issue costs	14,478	14,477
Amortization of discount/premium on issuance of bonds	(7,644)	(7,643)
Gain on disposals of property and equipment	(359,084)	(41,273)
Changes in		
Membership assessments receivable	(729)	54,144
Water utilities and other receivables	(90,576)	(21,970)
Inventories	(76,593)	(111,291)
Prepaid expenses	107,560	21,660
Member lots held for sale	204,888	38,605
Accounts payable	(48,740)	(240,741)
Accrued expenses	(1,473,987)	1,673,418
Members' deposits and prepayments	(6,127)	8,421
Contract liability	(280,608)	593,808
Net cash (used in) provided by operating activities	(1,485,716)	1,359,383
Investing Activities		
Proceeds from maturity of certificates of deposit	147,175	-
Proceeds from sale of mutual funds	1,263,992	7,505,718
Purchases of property and equipment	(1,067,742)	(8,753,197)
Proceeds from sale of property and equipment	1,484,214	49,081
Net cash provided by (used in) investing activities	1,827,639	(1,198,398)
Financing Activities		
Principal payments on bonds payable	(490,000)	(480,000)
Net cash used in financing activities	(490,000)	(480,000)
Net Decrease in Cash and Cash Equivalents	(148,077)	(319,015)
Cash and Cash Equivalents, Beginning of Year	2,513,540	2,832,555
Cash and Cash Equivalents, End of Year	$ 2,365,463	$ 2,513,540
Supplemental Cash Flows Information		
Interest paid	$ 158,001	$ 168,625
Right-of-use assets obtained in exchange for new operating lease liabilities	1,761,106	-

	2019	2018
Cash and cash equivalents	$ 1,435,296	$ 1,574,386
Restricted cash	930,167	939,154
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 2,365,463	$ 2,513,540

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, 2019 and 2018, there were 39,025 and 39,015, 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, a marina, 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, cash equivalents consisted primarily of money market accounts with brokers. There were no cash equivalents at December 31, 2019.

Investments and Investment Return

Investments in non-negotiable certificates of deposit were carried at cost. Investments in negotiable certificates of deposit were carried at fair value. Investments in equity securities having a readily determinable fair value were in all debt securities are carried at fair value. All other investments were valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Restricted investments consisted 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^{th} of the month are considered delinquent and are charged a late fee. Accounts remaining unpaid after the 25^{th} of the month are considered past due and are charged a past due penalty. Accounts remaining unpaid five (5) business days after the 25^{th} of the month will be disconnected.

Members’ Deposits

Members’ deposits are generally a deposit for water service.

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, 2019 and 2018 are as follows:

	2019	2018
Golf pro shop	$ 289,968	$ 300,615
Mechanic and maintenance	198,151	131,110
Fuel	15,177	14,466
Food and beverage	78,811	59,460
Paper and office supplies	6,509	6,372
	$ 588,616	$ 512,023

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.

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, 2019 and 2018.

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 12*.

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.

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

Leases

See Note 9 for discussion of the Association's adoption of ASU 2016-02, *Leases (Topic 842)*.

Restricted Cash

In 2019, the Company changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of period balances on the statement of cash flows. This change was applied retrospectively to all periods presented, which resulted in the following changes within the statement of cash flows:

	2019	2018
Cash and cash equivalents	$ 1,435,296	$ 1,574,386
Restricted cash deposits	930,167	939,154
Total cash, cash equivalents and restricted cash shown on the balance sheet	$ 2,365,463	$ 2,513,540

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with a lender for regular payments on debt held by the Association. The restriction will lapse when the related long-term debt is paid off.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2019 and 2018

Note 2: Member Lots Held for Sale

Member lots held for sale, amounting to $20,334 and $225,222 at December 31, 2019 and 2018, respectively, consists of lots obtained from property owners through various means including foreclosure as a result of failure by the property owners to pay membership assessments and forfeiture by owners. 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:

	2019	2018
Money market mutual fund	$ -	$ 468,309
Cash equivalents - money market	-	201,015
Negotiable certificates of deposit	-	149,000
Open-ended mutual funds	-	1,197,171
	$ -	$ 2,015,495

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	$ (263)	$ 10,015
Net realized and unrealized gains (losses) on investments reported at fair value	-	65,135
	$ (263)	$ 75,150

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

	2019	2018
Equipment	$ 39,907,631	$ 38,073,322
Land improvements	25,746,478	25,004,212
Land	20,235,970	21,353,993
Buildings and building improvements	20,394,558	20,067,332
Community centers	2,462,949	2,521,692
Construction in progress	66,373	5,148,221
	108,813,959	112,168,772
Less accumulated depreciation	53,333,809	53,326,466
	$ 55,480,150	$ 58,842,306

Note 5: Line of Credit

The Association has a $1,000,000 unsecured revolving line of credit expiring in May 2021. At December 31, 2019 and 2018, there was $0 borrowed against this line. There were no borrowings or payments of principle or interest on the line during 2019 or 2018. Interest varies with the bank's prime rate, which was 5.00 % and 5.75% on December 31, 2019 and 2018, respectively, payable monthly when applicable.

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.

	2019	2018
Water Revenue Construction Bonds, Series 2014 (A)	$ 5,015,000	$ 5,505,000
Plus premium on issuance of bonds	68,779	76,422
Less unamortized debt issuance costs	(130,299)	(144,777)
Total bonds payable, net of premium and debt issuance costs	4,953,480	5,436,645
Less current maturities	505,000	490,000
	$ 4,448,480	$ 4,946,645

(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 $130,299 and $144,777 at December 31, 2019 and 2018, 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, 2019, are:

Year	Principal	Interest	Total
2020	$ 505,000	$ 143,395	$ 648,395
2021	520,000	128,020	648,020
2022	530,000	112,270	642,270
2023	550,000	96,070	646,070
2024	565,000	79,345	644,345
2025-2030	2,345,000	140,575	2,485,575
Total	$ 5,015,000	$ 699,675	$ 5,714,675

Note 7: Restricted Funds – Debt Service Sinking Fund

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, 2019 and 2018, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was $930,167 and $939,154, respectively.

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	2019	2018
Total financial assets	$ 3,291,114	$ 3,701,774
Funds designated for debt service	930,167	939,154
Financial assets available to meet cash needs for general expenditures within one year	$ 2,360,947	$ 2,762,620

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, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 9: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases* (*Topic 842*). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (*Topic 842*): *Targeted improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e. the comparatives under ASC 840 option.

The Association adopted Topic 842 on January 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Association elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Association has lease agreements with nonlease components that relate to the lease components. The Association elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. The Association elected the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2019.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $1,520,549, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect the statements of revenues and expenses or cash flows.

Accounting Policies

The Association determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the Balance Sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Association determines lease classification as operating or finance at the lease commencement date. Finance leases, if applicable, are included in property and equipment, other current liabilities and other long-term liabilities in our balance sheets.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Association uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Association uses its most recent borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the interest rate on the Association’s line of credit corresponding to the lease commencement date.

The lease term is the noncancelable period per the contract. Additionally, the lease term may include options to extend or to terminate the lease that the Association is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

Nature of Leases

The Association has entered into the following lease arrangements:

Operating Leases

The Association leases golf course maintenance equipment and a barn that expire in various years through 2023. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

The Association leases office equipment that expire in various years through 2021. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

All Leases

The Association has no material related party leases. The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2019, are as follows:

Lease cost		
Operating lease cost	$	843,564
Total lease cost	$	843,564
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	843,564
Weighted-average remaining lease term		
Operating leases		2.15 years
Weighted-average discount rate		
Operating leases		5.00%

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2019, are as follows:

	Operating Leases
2020	$ 571,369
2021	284,549
2022	159,930
2022	24,236
2023	-
Total future undiscounted lease payments	1,040,084
Less interest	54,680
Lease liabilities	$ 985,404

Note 10: Operating Leases

The Association leases golf carts, golf maintenance equipment, and copiers under separate noncancelable operating leases. Lease expense charged to operations amounts to $902,780 for the year ended December 31, 2018.

Note 11: Revenue from Contracts with Members

Member Assessments

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 ratably over the membership term. Generally, the Association bills members monthly.

Water 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.

Golf Cart Rental and Green Fee Revenue

Revenue from contracts with members and customers for use of golf carts and golf course facilities is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing golf carts and golf course facilities to members and customers. Revenue for performance obligations satisfied at a point in time is generally recognized when access to equipment and facilities is 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.

Other Contract Revenue

Food and Beverage Sales – 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.

Property Income – Revenue from contracts with members for sale of property is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for sale of property. Revenue is recognized as the performance obligations are satisfied at a point in time when title passes from the Association to members.

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.

Transaction Price and Recognition

The Association determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided in accordance with the Association’s policy and implicit price concessions provided to customers.

The Association has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, customer, governmental programs and others) that have different reimbursement and payment methodologies
- Association's line of business that provided the service

For the years ended December 31, 2019 and 2018, the Association recognized revenue of $14,330,409 and $14,165,040, respectively, from goods and services that transfer to the member over time and $11,962,999 and $11,463,346, respectively, from goods and services that transfer to the member at a point in time.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations relate to contracts with a duration of less than one year, the Association has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to assessments and membership dues. The performance obligations for these contracts are generally completed over time.

During the years ended December 31, 2019 and 2018, the Association recognized revenue of $1,126,947 and $1,407,555, respectively, that was recognized as a contract liability at the beginning of the year.

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 12: 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 $75,000 per participant per claim. 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, 2019 and 2018, expense incurred under this plan was $1,252,994 and $1,395,774, 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, 2019 and 2018, the provision for loss was $252,000 and $149,418, 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 $357,119 and $300,444 for the years ended December 31, 2019 and 2018, respectively.

Note 13: 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

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:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 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	-
	$ 1,814,480	$ 468,309	$ 1,346,171	$ -

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, 2019.

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 14: 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 15: 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 2019 and 2018, 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.

There was no study performed in 2019.

Note 16: 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. At December 31, 2019, management cannot reasonably estimate the costs of the remaining upgrades.

Major Water Suppliers

During the years ended December 31, 2019 and 2018, the Association purchased water from two unrelated suppliers. The suppliers provided 85% and 15%, respectively, of the Association's water in 2019 and 92% and 8%, respectively, of the Association's water in 2018.

Environmental Matter

The Association is the subject of ongoing claims regarding an underground fire that occurred 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. The Association committed to and planned for the expenditure of up to four million dollars to meet those requirements as agreed to in the administrative order. Of the four million dollar expenditure, the Association recorded a liability of $1,666,221 in 2018, with the remainder of the expenditure incurred in 2019. By June 2019, the Association had extinguished the fire and stabilized the Site. The Association continues to make efforts to restore the Site in accordance with ADEQ recommendations and guidelines, with those expenses being accounted for through normal business operations. The Association has filed claims with its insurance carriers in an effort to recover funds spent relating to this matter, the outcome of which is still unknown at this time.

Note 17: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Association. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through April 29, 2020, which is the date the financial statements were issued.