

Bella Vista Property Owners Association

Independent Auditor's Reports and Financial Statements

December 31, 2020 and 2019

Bella Vista Property Owners Association
December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

BKD, LLP

Fort Smith, Arkansas
May 12, 2021

Bella Vista Property Owners Association

Balance Sheets

December 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash	\$ 3,261,248	\$ 1,435,296
Restricted cash	1,929,186	930,167
Membership assessments receivable net of allowance; 2020 - \$93,603, 2019 - \$45,598	196,672	152,840
Water utilities receivable net of allowance; 2020 - \$5,330, 2019 - \$3,164	655,074	561,970
Other receivables		
Miscellaneous billing receivables	14,584	12,309
Employee assistance fund receivable	2,672	3,522
Lot sale receivables	127,164	40,316
Keg deposit receivables	1,890	2,080
Advertising receivables	7,449	2,335
Tournament receivables	5,000	707
Third party delivery service receivables	-	1,422
Member accounts receivable miscellaneous	107,562	127,816
Inventories	526,185	588,616
Prepaid expenses	225,362	161,726
Member lots held for sale, net of estimated expenses	<u>6,961</u>	<u>20,334</u>
 Total current assets	 <u>7,067,009</u>	 <u>4,041,456</u>
 Property and Equipment, Net of Accumulated Depreciation	 <u>53,097,973</u>	 <u>55,480,150</u>
 Right-of-Use Assets - Operating Leases	 <u>1,915,944</u>	 <u>985,404</u>
 Total assets	 <u><u>\$ 62,080,926</u></u>	 <u><u>\$ 60,507,010</u></u>

Liabilities and Members' Equity

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current portion of bonds payable (<i>Note 6</i>)	\$ 520,000	\$ 505,000
Current portion of operating lease liabilities	824,846	535,986
Accounts payable	1,054,792	519,155
Accrued expenses	1,514,129	1,892,099
Members' deposits	359,699	330,064
Contract liability	<u>1,248,699</u>	<u>1,126,947</u>
 Total current liabilities	 5,522,165	 4,909,251
 Other Liabilities		
Long-term debt, net	3,935,315	4,448,480
Operating lease liabilities	<u>1,092,531</u>	<u>449,418</u>
 Total liabilities	 <u>10,550,011</u>	 <u>9,807,149</u>
 Members' Equity		
Contributed capital	32,628,284	32,628,284
Cumulative excess of revenue over expenses		
Undesignated	16,973,445	17,141,410
Designated for debt service	<u>1,929,186</u>	<u>930,167</u>
 Total members' equity	 <u>51,530,915</u>	 <u>50,699,861</u>
 Total liabilities and members' equity	 <u>\$ 62,080,926</u>	 <u>\$ 60,507,010</u>

Bella Vista Property Owners Association
Statements of Revenues and Expenses
Years Ended December 31, 2020 and 2019

	2020	2019
Revenue		
Member assessments	\$ 11,185,137	\$ 8,970,957
Water	10,081,063	8,363,732
Golf cart rentals and green fees	3,754,151	3,787,668
Community and recreation center fees	476,128	762,304
Outdoor activities and recreational vehicle park fees	785,831	805,284
Property income	494,640	652,290
Pro shop clothing and equipment sales	527,058	498,932
Investment (loss) return, net	-	(263)
Advertising	151,847	159,033
Income - City of Bella Vista	9,093	12,178
Food and beverage sales	1,729,615	2,089,717
Other recreation	30,430	32,589
Interest income - debt service	3,199	13,220
Other income	592,071	1,607,891
Total revenue	29,820,263	27,755,532
Expenses		
Program services		
Operating expenses	15,433,876	14,976,002
Cost of goods sold	3,563,764	3,516,031
Depreciation	3,115,018	3,165,801
Total program services	22,112,658	21,657,834
General and administrative		
Operating expenses	6,045,152	5,732,896
Environmental expense	736,666	2,999,157
Depreciation	94,733	138,967
Total general and administrative	6,876,551	8,871,020
Total expenses	28,989,209	30,528,854
Excess (Deficit) of Revenues Over Expenses	\$ 831,054	\$ (2,773,322)

Bella Vista Property Owners Association
Statement of Functional Expenses
Year Ended December 31, 2020

	<u>Program Services</u>					<u>Support Services</u>		
	<u>Water Utilities</u>	<u>Maintenance</u>	<u>Streets</u>	<u>Recreation</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total Support Services</u>	<u>Total</u>
Salaries and expenses	\$ 1,026,950	\$ 1,076,415	\$ 178,445	\$ 4,976,612	\$ 7,258,422	\$ 2,445,238	\$ 2,445,238	\$ 9,703,660
Employee benefits	195,140	50,602	7,491	195,287	448,520	982,235	982,235	1,430,755
Payroll taxes	75,390	81,377	14,001	414,786	585,554	166,103	166,103	751,657
Cost of goods sold	2,465,000	-	-	1,098,764	3,563,764	-	-	3,563,764
Depreciation	1,312,886	99,679	25,351	1,677,102	3,115,018	94,733	94,733	3,209,751
Interest	72,682	69,972	-	-	142,654	-	-	142,654
Repairs and maintenance	297,773	73,452	46,246	912,130	1,329,601	49,233	49,233	1,378,834
Supplies	531,043	43,075	17,124	964,671	1,555,913	97,231	97,231	1,653,144
Financial and administration allocation	36,550	-	-	(36,550)	-	-	-	-
Insurance	168,193	7,132	5,042	31,674	212,041	486,788	486,788	698,829
Utilities	107,827	22,574	17,390	813,834	961,625	108,105	108,105	1,069,730
Non-capital equipment	100,972	43,841	3,011	320,099	467,923	112,043	112,043	579,966
MAC allocation	448,524	(338,200)	(110,324)	-	-	-	-	-
Occupancy	290,503	-	-	28,563	319,066	362,417	362,417	681,483
Lease expense	-	-	-	785,497	785,497	-	-	785,497
Travel	(1,359)	-	-	13,250	11,891	10,366	10,366	22,257
Environmental expense	-	-	-	-	-	736,666	736,666	736,666
Other expenses	558,242	30,428	11,484	755,015	1,355,169	1,225,393	1,225,393	2,580,562
Total expenses	\$ 7,686,316	\$ 1,260,347	\$ 215,261	\$ 12,950,734	\$ 22,112,658	\$ 6,876,551	\$ 6,876,551	\$ 28,989,209

See Notes to Financial Statements

Bella Vista Property Owners Association
Statement of Functional Expenses (Continued)
Year Ended December 31, 2019

	<u>Program Services</u>					<u>Support Services</u>		
	<u>Water Utilities</u>	<u>Maintenance</u>	<u>Streets</u>	<u>Recreation</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total Support Services</u>	<u>Total</u>
Salaries and expenses	\$ 967,431	\$ 1,102,180	\$ 198,467	\$ 5,060,856	\$ 7,328,934	\$ 2,296,340	\$ 2,296,340	\$ 9,625,274
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	-	-	1,205,348	3,516,031	-	-	3,516,031
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	\$ 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 Changes in Members' Equity
Years Ended December 31, 2020 and 2019

	Contributed Capital	Undesignated	Designated for Debt Service	Total Members' Equity
Balance, January 1, 2019	\$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	-	<u>(2,773,322)</u>	<u>-</u>	<u>(2,773,322)</u>
Balance, December 31, 2019	32,628,284	17,141,410	930,167	50,699,861
Designation of debt service for Series 2014 bonds	-	(999,019)	999,019	-
Excess of revenues over expenses	-	<u>831,054</u>	<u>-</u>	<u>831,054</u>
Balance, December 31, 2020	<u>\$32,628,284</u>	<u>\$ 16,973,445</u>	<u>\$ 1,929,186</u>	<u>\$ 51,530,915</u>

Bella Vista Property Owners Association
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Excess (deficit) of revenues over expenses	\$ 831,054	\$ (2,773,322)
Items not requiring (providing) operating activities cash flows		
Depreciation	3,209,751	3,304,768
Provision for losses on receivables	166,652	108,128
Amortization of bond issue costs	14,478	14,478
Amortization of discount/premium on issuance of bonds	(7,644)	(7,644)
Gain on disposals of property and equipment	-	(359,084)
Noncash operating lease expense	959,982	775,701
Changes in		
Membership assessments receivable	(207,666)	(105,890)
Water utilities and other receivables	(171,736)	(93,543)
Inventories	62,431	(76,593)
Prepaid expenses	(63,636)	107,560
Member lots held for sale	13,373	204,888
Accounts payable	535,637	(48,740)
Accrued expenses	(377,969)	(1,473,987)
Operating lease liability	(958,549)	(775,701)
Members' deposits and prepayments	29,635	(6,127)
Contract liability	121,752	(280,608)
	<u>4,157,545</u>	<u>(1,485,716)</u>
Net cash provided by (used in) operating activities		
	<u>4,157,545</u>	<u>(1,485,716)</u>
Investing Activities		
Proceeds from maturity of certificates of deposit	-	147,175
Proceeds from sale of mutual funds	-	1,263,992
Purchases of property and equipment	(827,574)	(1,067,742)
Proceeds from sale of property and equipment	-	1,484,214
	<u>(827,574)</u>	<u>1,827,639</u>
Net cash (used in) provided by investing activities		
	<u>(827,574)</u>	<u>1,827,639</u>
Financing Activities		
Principal payments on bonds payable	(505,000)	(490,000)
	<u>(505,000)</u>	<u>(490,000)</u>
Net cash used in financing activities		
	<u>(505,000)</u>	<u>(490,000)</u>
Net Increase (Decrease) in Cash and Restricted Cash	2,824,971	(148,077)
Cash and Restricted Cash, Beginning of Year	<u>2,365,463</u>	<u>2,513,540</u>
Cash and Restricted Cash, End of Year	<u>\$ 5,190,434</u>	<u>\$ 2,365,463</u>
Supplemental Cash Flows Information		
Interest paid	\$ 151,567	\$ 158,001
Right-of-use assets obtained in exchange for new operating lease liabilities	2,004,895	1,761,106
Cash	\$ 3,261,248	\$ 1,435,296
Restricted cash	<u>1,929,186</u>	<u>930,167</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 5,190,434</u>	<u>\$ 2,365,463</u>

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, there were 39,044 and 39,025, 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, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Cash

At December 31, 2020, the Association's cash accounts exceeded federally insured limits by approximately \$3,418,000.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2020 and 2019

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.

During the years ended December 31, 2020 and 2019, bad debt expense related to doubtful membership assessment receivable, where collectability is not reasonably assured was \$163,834 and \$105,161, respectively.

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

During the years ended December 31, 2020 and 2019, bad debt expense related to doubtful water utilities receivable, where collectability is not reasonably assured was \$2,818 and \$2,967, respectively.

Members' Deposits

Members' deposits are generally a deposit for water service.

Inventories

Inventories consist 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.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2020 and 2019

Inventories at December 31, 2020 and 2019 are as follows:

	2020	2019
Golf pro shop	\$ 256,153	\$ 289,968
Mechanic and maintenance	172,763	198,151
Fuel	15,110	15,177
Food and beverage	76,073	78,811
Paper and office supplies	6,086	6,509
	\$ 526,185	\$ 588,616

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 are 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, 2020 and 2019.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2020 and 2019

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*.

Leases

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.

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.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2020 and 2019

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.

Revision

The 2019 statement of revenues and expenses has been revised to correct an immaterial error between revenue classes. The revision had no impact on total revenue. In addition, the 2019 statement of cash flows has been revised to separately reflect provision for losses on receivables. The revision had no impact on total cash flows from operating activities.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2020 and 2019

Note 2: Member Lots Held for Sale

Member lots held for sale, amounting to \$6,961 and \$20,334 at December 31, 2020 and 2019, 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: Property and Equipment

Property and equipment at December 31 consists of:

	2020	2019
Equipment	\$ 40,000,737	\$ 39,907,631
Land improvements	25,897,096	25,746,478
Land	20,235,970	20,235,970
Buildings and building improvements	20,581,320	20,394,558
Community centers	2,462,949	2,462,949
Construction in progress	61,574	66,373
	109,239,646	108,813,959
Less accumulated depreciation	56,141,673	53,333,809
	\$ 53,097,973	\$ 55,480,150

Note 4: Line of Credit

The Association has a \$1,000,000 unsecured revolving line of credit expiring in May 2021. At December 31, 2020 and 2019, there was \$0 borrowed against this line. There were no borrowings or payments of principle or interest on the line during 2020 or 2019. Interest varies with the bank's prime rate, which was 4.50 % and 5.00% on December 31, 2020 and 2019, respectively, payable monthly when applicable.

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2020 and 2019

Note 5: Bonds Payable

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

	2020	2019
Water Revenue Construction Bonds, Series 2014 (A)	\$ 4,510,000	\$ 5,015,000
Plus premium on issuance of bonds	61,136	68,709
Less unamortized debt issuance costs	(115,821)	(130,229)
Total bonds payable, net of premium and debt issuance costs	4,455,315	4,953,480
Less current maturities	520,000	505,000
	\$ 3,935,315	\$ 4,448,480

- (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 \$115,821 and \$130,299 at December 31, 2020 and 2019, 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, 2020, are:

Year	Principal	Interest	Total
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	580,000	62,460	642,460
2026-2031	1,765,000	78,115	1,843,115
Total	\$ 4,510,000	\$ 556,280	\$ 5,066,280

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Note 6: 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 interest bearing cash accounts. At December 31, 2020 and 2019, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$1,929,186 and \$930,167, respectively.

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of December 31, 2020 and 2019, comprise the following:

	2020	2019
Total financial assets	\$ 6,315,462	\$ 3,291,114
Less funds designated for debt service	1,929,186	930,167
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,386,276	\$ 2,360,947

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, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

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Note 8: Leases

Accounting Policies

The Association determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right of use (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 2025. 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.

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Quantitative Disclosures

The lease cost and other required information for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Lease cost		
Operating lease cost	\$ 861,428	\$ 843,564
Total lease cost	<u>\$ 861,428</u>	<u>\$ 843,564</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 958,549	\$ 775,701
Weighted-average remaining lease term		
Operating leases	2.28 years	2.15 years
Weighted-average discount rate		
Operating leases	5.00%	5.00%

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2020, are as follows:

	<u>Operating Leases</u>
2021	\$ 788,373
2022	647,498
2023	384,913
2023	245,251
2024	<u>973</u>
Total future undiscounted lease payments	2,067,008
Less interest	<u>149,631</u>
Lease liabilities	<u>\$ 1,917,377</u>

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Note 9: 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.

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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:

- Payment terms
- Association's line of business that provided the service

For the years ended December 31, 2020 and 2019, the Association recognized revenue of \$16,242,082 and \$14,330,409, respectively, from goods and services that transfer to the member over time and \$13,305,194 and \$11,962,999, respectively, from goods and services that transfer to the member at a point in time.

Contract Balances

Contract assets primarily relate to the Association's rights to consideration for services provided but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Association's obligation to transfer goods or services to a customer when consideration has already been received from the customer.

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Significant changes in contract liabilities during the period are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,126,947	\$ 1,434,008
Effects of		
Revenue recognized that was included in the contract liability balance at the beginning of the period	(36,369)	(590,135)
Increases due to cash received, excluding amounts recognized as revenue during the period	142,074	283,074
Contract modifications	<u>16,047</u>	<u>-</u>
Balance, end of year	<u>\$ 1,248,699</u>	<u>\$ 1,126,947</u>

The following table provides information about the Association's receivables from contracts with customers:

	<u>2020</u>	<u>2019</u>
Membership assessments receivable, beginning of year	\$ 152,840	\$ 152,111
Membership assessments receivable, end of year	\$ 196,672	\$ 152,840
Water utilities receivable net, beginning of year	\$ 561,970	\$ 563,627
Water utilities receivable net, end of year	\$ 655,074	\$ 561,970
Other receivable net, beginning of year	\$ 190,507	\$ 98,274
Other receivable net, end of year	\$ 266,321	\$ 190,507

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, 2020 and 2019, the Association recognized revenue of \$1,231,273 and \$1,126,947, respectively, that was recognized as a contract liability at the beginning of the year.

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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 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 \$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, 2020 and 2019, expense incurred under this plan was \$1,027,990 and \$1,252,994, 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, 2020 and 2019, the provision for loss was \$241,353 and \$252,000, 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 \$363,013 and \$357,119 for the years ended December 31, 2020 and 2019, respectively.

Note 11: 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.

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Note 12: 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 2020 and 2019, no assessments were made specifically for major repairs and replacements.

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

Note 13: 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, 2020, management cannot reasonably estimate the costs of the remaining upgrades.

Major Water Suppliers

During the years ended December 31, 2020 and 2019, the Association purchased water from two unrelated suppliers. The suppliers provided 93% and 7%, respectively, of the Association's water in 2020 and 85% and 15%, respectively, of the Association's water in 2019.

General Litigation

The Association is subject to claims and lawsuits that arose primarily in the ordinary course of business. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Association. Events could occur that would change this estimate materially in the near term.

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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 expended \$1,666,221 prior to 2019, \$2,999,157 in 2019 and \$736,666 in 2020 relating to the Site to meet those requirements as agreed to in the administrative order. 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 14: Economic Uncertainties

As a result of the spread of the SARS -CoV-2 virus and the incidence of COVID-19, 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, if any, cannot be reasonably estimated at this time.

Note 15: Subsequent Events

Subsequent events have been evaluated through May 12, 2021, which is the date the financial statements were issued.