

Bella Vista Property Owners Association

Independent Auditor's Reports and Financial Statements

December 31, 2021 and 2020

Bella Vista Property Owners Association
December 31, 2021 and 2020

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Bella Vista Village Property Owners Association (Association), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues and expenses, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Rogers, Arkansas
April 28, 2022

Bella Vista Property Owners Association
Balance Sheets
December 31, 2021 and 2020

Assets

| | <u>2021</u> | <u>2020</u> |
|--|--------------------------|--------------------------|
| Current Assets | | |
| Cash | \$ 1,524,550 | \$ 3,261,248 |
| Investments | 6,300,142 | - |
| Restricted cash | 1,885,824 | 1,929,186 |
| Membership assessments receivable net of allowance; 2021 - \$127,550, 2020 - \$93,603 | 115,022 | 196,672 |
| Water utilities receivable net of allowance; 2021 - \$6,003, 2020 - \$5,330 | 661,122 | 655,074 |
| Other receivables | | |
| Miscellaneous billing receivables | 15,865 | 14,584 |
| Employee assistance fund receivable | 3,053 | 2,672 |
| Lot sale receivables | 81,800 | 127,164 |
| Keg deposit receivables | 3,090 | 1,890 |
| Advertising receivables | 9,606 | 7,449 |
| Tournament receivables | 2,515 | 5,000 |
| Third party delivery service receivables | 67 | - |
| Member accounts receivable miscellaneous | 178,822 | 107,562 |
| Inventories | 581,918 | 526,185 |
| Prepaid expenses | 254,800 | 225,362 |
| Member lots held for sale, net of estimated expenses | <u>3,877</u> | <u>6,961</u> |
| Total current assets | <u>11,622,073</u> | <u>7,067,009</u> |
| Property and Equipment, Net of Accumulated Depreciation | <u>52,724,947</u> | <u>53,097,973</u> |
| Right-of-Use Assets - Operating Leases | <u>1,251,554</u> | <u>1,915,944</u> |
| Total assets | <u>\$ 65,598,574</u> | <u>\$ 62,080,926</u> |

Liabilities and Members' Equity

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Current Liabilities | | |
| Current portion of bonds payable | \$ 530,000 | \$ 520,000 |
| Current portion of operating lease liabilities | 664,316 | 824,846 |
| Accounts payable | 1,045,030 | 1,054,792 |
| Accrued expenses | 2,182,417 | 1,514,129 |
| Members' deposits | 381,423 | 359,699 |
| Contract liability | 1,413,988 | 1,248,699 |
| | <hr/> | <hr/> |
| Total current liabilities | 6,217,174 | 5,522,165 |
| Other Liabilities | | |
| Long-term debt, net | 2,412,149 | 3,935,315 |
| Operating lease liabilities | 588,291 | 1,092,531 |
| | <hr/> | <hr/> |
| Total liabilities | 9,217,614 | 10,550,011 |
| | <hr/> | <hr/> |
| Members' Equity | | |
| Contributed capital | 32,628,284 | 32,628,284 |
| Cumulative excess of revenue over expenses | | |
| Undesignated | 21,866,852 | 16,973,445 |
| Designated for debt service | 1,885,824 | 1,929,186 |
| | <hr/> | <hr/> |
| Total members' equity | 56,380,960 | 51,530,915 |
| | <hr/> | <hr/> |
| Total liabilities and members' equity | <u>\$ 65,598,574</u> | <u>\$ 62,080,926</u> |

Bella Vista Property Owners Association
Statements of Revenues and Expenses
Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---------------------|-------------------|
| Revenue | | |
| Member assessments | \$ 12,256,819 | \$ 11,185,137 |
| Water | 9,997,877 | 10,081,063 |
| Golf cart rentals and green fees | 3,991,600 | 3,754,151 |
| Community and recreation center fees | 471,335 | 476,128 |
| Outdoor activities and recreational vehicle park fees | 934,505 | 785,831 |
| Property income | 980,089 | 494,640 |
| Pro shop clothing and equipment sales | 665,895 | 527,058 |
| Advertising | 165,033 | 151,847 |
| Income - City of Bella Vista | 14,772 | 9,093 |
| Food and beverage sales | 2,957,145 | 1,729,615 |
| Other recreation | 38,808 | 30,430 |
| Interest income - debt service | 826 | 3,199 |
| Other income | 2,670,319 | 592,071 |
| Total revenue | 35,145,023 | 29,820,263 |
| Expenses | | |
| Program services | | |
| Operating expenses | 16,381,437 | 15,433,876 |
| Cost of goods sold | 4,006,738 | 3,563,764 |
| Depreciation and amortization | 3,037,165 | 3,115,018 |
| Total program services | 23,425,340 | 22,112,658 |
| General and administrative | | |
| Operating expenses | 6,603,448 | 6,045,152 |
| Environmental expense | 231,369 | 736,666 |
| Depreciation | 34,821 | 94,733 |
| Total general and administrative | 6,869,638 | 6,876,551 |
| Total expenses | 30,294,978 | 28,989,209 |
| Excess of Revenues Over Expenses | \$ 4,850,045 | \$ 831,054 |

Bella Vista Property Owners Association
Statements of Changes in Members' Equity
Years Ended December 31, 2021 and 2020

| | Contributed Capital | Undesignated | Designated for Debt Service | Total Members' Equity |
|--|--------------------------------|----------------------|--|----------------------------------|
| Balance, January 1, 2020 | \$ 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 | - | 831,054 | - | 831,054 |
| Balance, December 31, 2020 | 32,628,284 | 16,973,445 | 1,929,186 | 51,530,915 |
| Designation of debt service for Series 2014 bonds | - | 43,362 | (43,362) | - |
| Excess of revenues over expenses | - | 4,850,045 | - | 4,850,045 |
| Balance, December 31, 2021 | <u>\$ 32,628,284</u> | <u>\$ 21,866,852</u> | <u>\$ 1,885,824</u> | <u>\$ 56,380,960</u> |

Bella Vista Property Owners Association
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--|----------------------------|----------------------------|
| Operating Activities | | |
| Excess of revenues over expenses | \$ 4,850,045 | \$ 831,054 |
| Items not requiring (providing) operating activities cash flows | | |
| Depreciation and amortization | 3,071,986 | 3,209,751 |
| Provision for losses on receivables | 130,368 | 166,652 |
| Amortization of bond issue costs | 14,477 | 14,478 |
| Amortization of discount/premium on issuance of bonds | (7,643) | (7,644) |
| Noncash operating lease expense | 723,625 | 959,982 |
| Changes in | | |
| Membership assessments receivable | (45,900) | (207,666) |
| Water utilities and other receivables | (37,363) | (171,736) |
| Inventories | (55,733) | 62,431 |
| Prepaid expenses | (29,438) | (63,636) |
| Member lots held for sale | 3,084 | 13,373 |
| Accounts payable | (9,762) | 535,637 |
| Accrued expenses | 668,288 | (377,969) |
| Operating lease liability | (724,005) | (958,549) |
| Members' deposits and prepayments | 21,724 | 29,635 |
| Contract liability | 165,289 | 121,752 |
| | <u>8,739,042</u> | <u>4,157,545</u> |
| Net cash provided by operating activities | | |
| Investing Activities | | |
| Purchases of investments | (6,300,142) | - |
| Purchases of property and equipment | (2,698,960) | (827,574) |
| | <u>(8,999,102)</u> | <u>(827,574)</u> |
| Net cash used in investing activities | | |
| Financing Activities | | |
| Principal payments on bonds payable | (1,520,000) | (505,000) |
| | <u>(1,520,000)</u> | <u>(505,000)</u> |
| Net cash used in financing activities | | |
| Net Increase (Decrease) in Cash and Restricted Cash | <u>(1,780,060)</u> | <u>2,824,971</u> |
| Cash and Restricted Cash, Beginning of Year | <u>5,190,434</u> | <u>2,365,463</u> |
| Cash and Restricted Cash, End of Year | <u><u>\$ 3,410,374</u></u> | <u><u>\$ 5,190,434</u></u> |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 111,422 | \$ 151,567 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 59,235 | 2,004,895 |
| Cash | \$ 1,524,550 | \$ 3,261,248 |
| Restricted cash | <u>1,885,824</u> | <u>1,929,186</u> |
| Total cash and restricted cash shown in the statement of cash flows | <u><u>\$ 3,410,374</u></u> | <u><u>\$ 5,190,434</u></u> |

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, there were 39,057 and 39,044, 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, 2021, the Association's cash accounts exceeded federally insured limits by approximately \$2,742,000.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. 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.

During the years ended December 31, 2021 and 2020, bad debt expense related to doubtful membership assessment receivable, where collectability is not reasonably assured was \$68,167 and \$163,834, 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, 2021 and 2020, bad debt expense related to doubtful water utilities receivable, where collectability is not reasonably assured was \$2,858 and \$2,818, respectively.

Members' Deposits

Members' deposits are generally a deposit for water service.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

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.

Inventories at December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---------------------------|-------------|-------------|
| Golf pro shop | \$ 223,413 | \$ 256,153 |
| Mechanic and maintenance | 260,906 | 172,763 |
| Fuel | 14,190 | 15,110 |
| Food and beverage | 78,927 | 76,073 |
| Paper and office supplies | 4,482 | 6,086 |
| | \$ 581,918 | \$ 526,185 |

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 - 50 years |
| Community centers | 5 - 40 years |
| Buildings and building improvements | 2 - 40 years |
| Equipment | 2 - 40 years |

Common Property

The Association holds title to property consisting of seven golf courses, seven lakes, parks, water distribution equipment, five clubs with food and beverage facilities, as well as various other buildings and equipment. The Association maintains all properties to which title is held.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

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

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.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

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.

Note 2: Member Lots Held for Sale

Member lots held for sale, amounting to \$3,877 and \$6,961 at December 31, 2021 and 2020, 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.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

Note 3: Investments and Investment Return

Investments at December 31, 2021 consisted of the following:

| | |
|---------------------------------|----------------------------|
| Money market mutual fund | \$ 6,000,138 |
| Cash equivalents - money market | <u>300,004</u> |
| | <u><u>\$ 6,300,142</u></u> |

Total investment return at December 31, 2021 is comprised of the following:

| | |
|------------------------------|-------------------------|
| Interest and dividend income | <u>13,721</u> |
| | <u><u>\$ 13,721</u></u> |

The Association held no investments for the year ended December 31, 2020.

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| Equipment | \$ 40,349,100 | \$ 40,000,737 |
| Land improvements | 26,186,762 | 25,897,096 |
| Land | 20,310,152 | 20,235,970 |
| Buildings and building improvements | 20,868,064 | 20,581,320 |
| Community centers | 2,462,949 | 2,462,949 |
| Construction in progress | <u>1,041,033</u> | <u>61,574</u> |
| | 111,218,060 | 109,239,646 |
| Less accumulated depreciation | <u>58,493,113</u> | <u>56,141,673</u> |
| | <u><u>\$ 52,724,947</u></u> | <u><u>\$ 53,097,973</u></u> |

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

Note 5: Line of Credit

The Association has a \$1,000,000 unsecured revolving line of credit expiring July 1, 2022. At December 31, 2021 and 2020, there was \$0 borrowed against this line. There were no borrowings or payments of principle or interest on the line during 2021 or 2020. Interest varies with the bank's prime rate, which was 3.25% and 4.50% on December 31, 2021 and 2020, 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.

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Water Revenue Construction Bonds, Series 2014 (A) | \$ 2,990,000 | \$ 4,510,000 |
| Plus premium on issuance of bonds | 53,493 | 61,136 |
| Less unamortized debt issuance costs | (101,344) | (115,821) |
| Total bonds payable, net of premium and debt issuance costs | 2,942,149 | 4,455,315 |
| Less current maturities | 530,000 | 520,000 |
| | \$ 2,412,149 | \$ 3,935,315 |

(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 \$101,344 and \$115,821 at December 31, 2021 and 2020, 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.

Bella Vista Property Owners Association
Notes to Financial Statements
December 31, 2021 and 2020

Aggregate annual maturities of long-term debt at December 31, 2021, are:

| Year | Principal | Interest | Total |
|-----------|--------------|------------|--------------|
| 2022 | \$ 530,000 | \$ 128,020 | \$ 658,020 |
| 2023 | 550,000 | 112,270 | 662,270 |
| 2024 | 565,000 | 96,070 | 661,070 |
| 2025 | 580,000 | 79,345 | 659,345 |
| 2026 | 600,000 | 62,460 | 662,460 |
| 2027-2029 | 165,000 | 78,115 | 243,115 |
| Total | \$ 2,990,000 | \$ 556,280 | \$ 3,546,280 |

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 interest bearing cash accounts. At December 31, 2021 and 2020, the Association was in compliance with the debt service requirement, and the balance of the debt service fund was \$1,885,824 and \$1,929,186, 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, 2021 and 2020, comprise the following:

| | 2021 | 2020 |
|---|---------------|--------------|
| Total financial assets | \$ 10,785,355 | \$ 6,315,462 |
| Less funds designated for debt service | 1,885,824 | 1,929,186 |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 8,899,531 | \$ 4,386,276 |

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- | | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities |

Bella Vista Property Owners Association

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021:

| | 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, 2021 | | | | |
| Money market | | | | |
| mutual fund | \$ 6,000,138 | \$ 6,000,138 | \$ - | \$ - |
| Money market funds | 300,004 | 300,004 | - | - |
| | <u>\$ 6,300,142</u> | <u>\$ 6,300,142</u> | <u>\$ -</u> | <u>\$ -</u> |

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There were no investments held by the Association for the year ended December 31, 2020.

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 and money market funds. All investments held by the Association for the year ended December 31, 2020 were classified within Level 1 of the valuation hierarchy.

Note 10: 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.

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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 2023. 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, 2021 and 2020, are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Lease cost | | |
| Operating lease cost | \$ 801,946 | \$ 861,428 |
| | | |
| Total lease cost | <u>\$ 801,946</u> | <u>\$ 861,428</u> |
| | | |
| Other information | | |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | \$ 724,005 | \$ 958,549 |
| Weighted-average remaining lease term | | |
| Operating leases | 2.30 years | 2.28 years |
| Weighted-average discount rate | | |
| Operating leases | 5.00% | 5.00% |

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2021, are as follows:

| | <u>Operating Leases</u> |
|--|-----------------------------|
| 2022 | \$ 664,316 |
| 2023 | 400,681 |
| 2024 | 255,497 |
| 2025 | <u>7,504</u> |
| | |
| Total future undiscounted lease payments | 1,327,998 |
| Less interest | <u>75,391</u> |
| | |
| Lease liabilities | <u>\$ 1,252,607</u> |

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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.

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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, 2021 and 2020, the Association recognized revenue of \$19,641,198 and \$16,242,082, respectively, from goods and services that transfer to the member over time and \$14,842,212 and \$13,305,194, 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>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Balance, beginning of year | \$ 1,248,699 | \$ 1,126,947 |
| Effects of | | |
| Revenue recognized that was included in the contract liability balance at the beginning of the period | (42,385) | (36,369) |
| Increases due to cash received, excluding amounts recognized as revenue during the period | 210,511 | 142,074 |
| Contract modifications | <u>(2,837)</u> | <u>16,047</u> |
| Balance, end of year | <u>\$ 1,413,988</u> | <u>\$ 1,248,699</u> |

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Membership assessments receivable, beginning of year | \$ 196,672 | \$ 152,840 |
| Membership assessments receivable, end of year | \$ 115,022 | \$ 196,672 |
| Water utilities receivable net, beginning of year | \$ 655,074 | \$ 561,970 |
| Water utilities receivable net, end of year | \$ 661,122 | \$ 655,074 |
| Other receivable net, beginning of year | \$ 266,321 | \$ 190,506 |
| Other receivable net, end of year | \$ 294,818 | \$ 266,321 |

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, 2021 and 2020, the Association recognized revenue of \$1,248,699 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 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, 2021 and 2020, expense incurred under this plan was \$1,272,045 and \$1,027,990, 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, 2021 and 2020, the provision for loss was \$294,757 and \$241,353, 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 \$379,611 and \$363,013 for the years ended December 31, 2021 and 2020, respectively.

Note 13: 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 14: 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 2021 and 2020, 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 15: 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:

Major Water Suppliers

During the years ended December 31, 2021 and 2020, the Association purchased water from two unrelated suppliers. The suppliers provided 92% and 8%, respectively, of the Association's water in 2021 and 93% and 7%, respectively, of the Association's water in 2020.

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.

Environmental Matter

The Association was the subject of ongoing claims regarding an underground fire that occurred at the site of a stump dump on Trafalgar Road (Site). The Association received \$2 million in settlement proceeds for this ongoing matter in July 2021.

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Note 16: 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 17: Subsequent Events

The Association is expecting to make the final payment on the Water Revenue Construction Bonds, Series 2014 in May 2022.

Subsequent events have been evaluated through April 28, 2022, which is the date the financial statements were issued.