Memo
To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: August 16, 2017
Re: Monthly Board Meeting Updates

My report this month will focus on a handful of priority areas and pave the way for broader budget and comprehensive master plan discussions later in the agenda.

**Financial Review**

Please note the full financial package included and the YTD summary here:

<table>
<thead>
<tr>
<th></th>
<th>17 Budget</th>
<th>17 Actual</th>
<th>16 Actual</th>
<th>Over/(Under)</th>
<th>Prior Year</th>
<th>Budget Remaining</th>
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<tbody>
<tr>
<td>Gross Revenue</td>
<td>$36,291,051</td>
<td>$19,673,705</td>
<td>$19,073,208</td>
<td></td>
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<tr>
<td>Bad Debt Expense</td>
<td>(2,233,646)</td>
<td>(2,165,454)</td>
<td>(1,742,166)</td>
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<tr>
<td>Net Revenue (i)</td>
<td>$34,057,405</td>
<td>$17,508,251</td>
<td>$17,331,041</td>
<td>177,209</td>
<td></td>
<td>16,549,154</td>
</tr>
<tr>
<td>Operational Expense (i)</td>
<td>(29,364,649)</td>
<td>(15,959,480)</td>
<td>(15,513,080)</td>
<td>445,400</td>
<td></td>
<td>13,406,169</td>
</tr>
<tr>
<td>Excess (Deficit) Before Depr. (i)</td>
<td>$4,692,756</td>
<td>$1,549,770</td>
<td>$1,817,961</td>
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One of our favorite Village Values programs was entitled “Rumor Has It” and it’s time once again to dispel financial rumors. To that end, please note the following when reviewing these financials:

1. The revenue, expense and net numbers on the “Sales, Mktg, Disc Ctr, & Dev” section of the Statements of Revenue and Expense should not be confused as representing a real estate sales office loss. Please note the comparison to 2016 numbers when no real estate sales operation existed and prior to an increased national, regional, and local marketing presence.

2. Our consolidation and evaluation of the Food & Beverage Division is ramping up now that Granada Grill is open and enjoying strong community support. Please review the footnote for this division on the Comparative Statements of Revenue and Expense, noting the additional consolidation remaining to fully move all related operations out of Recreation and into this new division, as well as the discussion of 2016 insurance proceeds. If the one-time insurance proceeds of $117k were removed from the 2016 results, this division would have shown an operational subsidy of the nearly $300k budgeted in 2016, as well as capital spending. However, those 2016 results did not include subsidies related to overall Waypoint operations or the event center bars some of which have been reported in the Recreation Division. By the 4th quarter, we will complete the consolidation of all food and beverage operational results into the Food & Beverage Division. Our goal in creating this new division is to improve overall dining experience throughout the Village while reducing the subsidy to a sustainable level.

**Spending in both of these divisions represent less than 5% of the total annual budget.**
Another item of confusion revolves around escrowed funds. The “Restricted Cash” line on the Statement of Financial Position and related commentary on the Executive Summary continue to represent escrowed funds, along with other routine restrictions. There has been much confusion about 1) whether money associated with the assessment increase has been spent and 2) if not yet spent, where it will be spent once the Garner et. al case is ruled upon. As mentioned during the 2017 budget presentation and each month since, those funds remain saved and earmarked for capital items noted in the 2017 budget. Over $3mil of capital spending (excluding Waste Water bond projects) continues to be frozen until the Garner case is ruled upon, with the departments affected noted in the Statement of Capital Additions.

While we will continue scrutinizing all departments, and especially our new initiatives, we are giving due focus to these much larger budget contributors requiring a long-term strategy:

1. Ensuring public utility operations are efficient and support not only current operations but also future repairs and replacements. We have invited Dan Jackson back this year to review utility rates and their implications on our $57.8mil of water and waste water infrastructure. Director of Public Utilities Jason Temple continues to lead this effort which he first began in 2015.

2. Identifying the future repairs and replacement requirements of all golf courses while also evaluating operational needs and spending. Director of Agronomy Gary Myers is leading this effort, which will culminate in the POA’s first comprehensive multiyear plan on these assets.

3. Balancing the paving program with culvert repair needs. Director of Public Works Bill Staggs is leading this effort and will also be providing the POA’s first multiyear plan to identify all culverts and prioritize their replacement.

4. Adopting our first Comprehensive Master Plan since CCI completed residential development.

Building Property Owner Trust & Support Enterprise Goal
The best way I know how to continue building property owner trust and support is to “keep first things first” and focusing on those strategies that provide the greatest overall benefit to property owners. I commend the property owners, Board, and staff for their unwavering commitment to do just that. This approach paved the way for additions to reserves for the first time in several years and adding over $1.5mil in cash since this same time last year (amount excludes escrowed funds), along with various small and large efficiency gains throughout the organization.

Financial Health Enterprise Goal: Monetizing Community Growth
One of those “first things” is a commitment to growth. While both are important, growth is a much different strategy than maintenance. Our current results on that front include:

- Property Sales: 2017 target of 22 lots - 10 POA lots have been either sold or are currently awaiting closing, which is 45% of the goal.
- Developed property growth: 2017 target of 60 additional improved properties - Year to date, there are 25 more residential neighbors, as compared to December 2016, which is 42% of the goal.
- In the month of July alone, Dawn Johnson personally collected more than $29k in delinquent assessments through a new “friendly reminder” call procedure implemented by Renee Haugen.

Protecting Value & Lifestyle Enterprise Goal
The single greatest impact to growth that this generation of leaders and property owners will make on Hot Springs Village is to adopt a comprehensive master plan. I hope everyone will spend time reading the memo included in today’s board packet and envision how having such a road map will provide economic stability not only for Hot Springs Village residents but also for the surrounding stakeholders who depend on our prosperity.
- **ROUNDS**: 2017 July - A slight decrease in rounds for the month of 259, and 1,653 ahead of 2016 year to date. The decrease can be directly associated with rain on 2 weekends in July, which we saw cancellations in out of town packages. We received a high of 6.6” of rain at Balboa, and a low of 4.4” at Isabella for an average of 5.37” across the Village. Carts were restricted on average of 4.37 days/month of Cart Path Only.

- **Nine N’ Dine** – Granada will be hosting a Nine N’ Dine Couples tournament on Wednesday September 20th with 4:00 PM Shotgun start with dinner at the Granada Grill following play. This is open to the first 30 couples to sign up at the Granada Golf Shop. The entry fee is $26/Couple which includes dinner and prizes. We Look forward to starting up these events again.
• **TOURNAMENTS**: The Arkansas State Amateur Championship was held at Desoto July 13th-15th. It was a very successful event and we were asked to host it again. We will be talking to the ASGA and following up with details at later date. A special thank you to Henry Falgout and Mike Socha for weathering a 4 hour and 45 minute rain delay on Friday and still finishing the Tournament on time!!!

• **Adult Clinic/Junior Golf**: The Junior Golf Tournament was held on July 26 & 27, with the year-end picnic and awards on July 27th at the Balboa Pavilion. It was a great finale for a great Junior Golf Season.

• **OUTSIDE PLAY**: We have had 151 packages booked for 2017, totaling 5,032 rounds. Total revenue of $280102. We still have nice weather in the fall months to book more package play. We have had 1120 rounds from the Golf Now website totaling $38,037 through July. Package play was hampered by 2 weekends of rain in July.