Memo

To: Hot Springs Village Board of Directors

From: Lesley Nalley, Chief Executive Officer

Date: November 15, 2017

Re: Monthly Board Meeting Updates

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) Prior Year</th>
<th>Budget Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Revenue</td>
<td>$36,291,051</td>
<td>$29,817,476</td>
<td>$28,882,705</td>
<td></td>
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<tr>
<td>Bad Debt Expense</td>
<td>(2,233,646)</td>
<td>(5,025,154)</td>
<td>(1,721,916)</td>
<td></td>
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</tr>
<tr>
<td>Net Revenue (1)</td>
<td>34,057,405</td>
<td>24,792,322</td>
<td>27,160,289</td>
<td>(365,072)</td>
<td>7,265,083 79%</td>
</tr>
<tr>
<td>Operational Expense (2)</td>
<td>(29,364,649)</td>
<td>(23,036,989)</td>
<td>(22,331,692)</td>
<td>755,258</td>
<td>6,277,899 79%</td>
</tr>
<tr>
<td>Excess (Deficit) Before Depr. (3)</td>
<td>$4,692,756</td>
<td>$5,755,372</td>
<td>$4,928,702</td>
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</tbody>
</table>

With October being 83% into the year, overall expenses are tracking slightly behind budget, with certain spending held to offset revenue shortfalls. Assessment revenues are tracking behind budget and are projected to be under budget by $750k unless delinquency settlements are realized by the end of the year. Considering that the bi-monthly billing schedule for water, waste water, and sanitation accounts for 9 months thus far, the related utility revenues are tracking better than budget.

Regarding our assets and liabilities, I am working with Renee Haugen to writeoff all assessment delinquency balances that are more than 5 years old, in accordance with the statute of limitations and delinquency cleanup previously discussed. Note on the Statement of Financial Position, a line titled “Less Allowance for Doubtful Accounts”. This represents accrued bad debt expense and is the balance we have discussed requiring cleanup as we complete each legal effort. I anticipate a write-off of approximately $7mil. Additionally, beginning next year we will no longer reflect on our Statement of Financial position assessments related to properties having a certain tax delinquency status with the Commissioner of State Land.

Once this remaining cleanup is complete, the allowance for doubtful accounts going forward will only include balances owed for the previous 5 years. Should the related statute of limitations ever change, this practice should be revisited.

Financial Health Enterprise Goal: Monetizing Community Growth

Our current results include:

➢ Property sales: 2017 target of 22 lots - 15 POA lots have been sold or are awaiting closing, which is 68% of the goal.
➢ Developed property growth: 2017 target of 60 additional improved properties - Year to date, there are 28 more residential neighbors, as compared to December 2016, which is 47% of the goal.
➢ Year to date there were 34 residential new home permits, which is 1 more than last year’s 33.
➢ 97 fewer properties are considered delinquent between December 2016 and this month.
➢ Village Homes & Land has given 138 referrals to other realtors and has brought two buyers to another realtor’s listing, with a third awaiting closing.

One very interesting portion of the charrette process will be devoted to the evaluation of various development and funding alternatives; i.e. creating the conditions for sustainable growth. When people ask why we would spend money on a comprehensive plan, I point them to this portion of the plan deliverables, which are at the vary crux of “monetizing community growth”. As we see from the above bad debt write off discussion, mass marketing a dated story does not lead to sustainable growth. Or another way of saying it, you can’t spend money you never collected.

Without prudent successional development, our two funding streams remain existing assessments and usage fees. Absent OPM, the pie is what it is, and we start responding by limiting ourselves to what we can’t do more than anything (i.e. deferred maintenance). We are very encouraged by the positive responses we are receiving to recent surveys, where a significant majority of property owners are willing to innovate while protecting their own value. We look forward to continuing to share more survey information as completed.

**Building Property Owner Trust & Support Enterprise Goal**

On that note, I hope everyone is enjoying the weekly comprehensive master plan updates and survey opportunities. It’s one thing to have an idea (i.e. we need another XXX), but it’s another matter altogether to identify specific land zoning, evaluate and secure funding, and attract investment partners. Investors who can be confident that what they are being courted to accomplish is not only allowed in the zoning rules, but also supported by a majority of existing property owners.

We continue looking for ways to communicate with and engage our nonresidents, who have provided as much as two thirds of our total assessment revenues over the years. We would far exceed our revenue goals, if even a small percentage chose to finally build that dream home here. Again, we must give the future home builder confidence to invest. We have much to offer, yet we know the old saying “what got you here, won’t get you there” and, thus, why our tag line is “Forward Together”.

And we definitely understand that our residents are more sensitive and closer to the effects of change. In addition to seeking your input on possible development, the COO’s new compliance report reflects an increased commitment to uphold policies that most residents faithfully abide by. Our expectation is that compliance staff will vigorously uphold our covenants and policies, providing some comfort to residents that this community intends to set the bar high in even the smallest of things.

**Protect Community-wide Property Owner Value & Life Style Enterprise Goal**

Speaking of protecting value, please join me in thanking the staff members who organized, following the Directors’ group planning meetings, and spent their day personally sprucing up the Ponce de Leon Center! Their goal in each of their identified group projects was to show property owners our commitment to “value and lifestyle”. Whether in a supervisory position or otherwise, I sincerely appreciate every employee who has embraced personal accountability and superior service to our property owners and visitors.

In this same vein and despite the latest legal maneuver in the Garner case, I recommend pressing forward with the pool and pickleball projects. Between our current operating results and steps taken to utilize leasing and/or debt, I am comfortable moving these projects forward, as well as other priority deferred maintenance projects. We will hold off on any decisions related to repaying debt or lower priority maintenance projects, until the case is ultimately resolved by Supreme Court and Appellate Court responses. Today, Controller, Liz Mathis, will provide an overview of our escrow balance and plans surrounding deferred maintenance projects.