



**HOT SPRINGS VILLAGE TOWNHOUSE  
ASSOCIATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION  
TABLE OF CONTENTS**

Independent Auditor's Report.....	1
Balance Sheet.....	3
Statement of Revenues and Expenses.....	4
Statement of Changes in Members' Equity.....	5
Statement of Cash Flows .....	6
Notes to the Financial Statements.....	7



## Independent Auditor's Report

To the Board of Directors of  
Hot Springs Village Townhouse Association  
Hot Springs Village, Arkansas

### Opinion

We have audited the accompanying financial statements of Hot Springs Village Townhouse Association, which comprise the balance sheet as of December 31, 2021, and the related statement of revenues and expenses, statement of changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hot Springs Village Townhouse Association as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Hot Springs Village Townhouse Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Hot Springs Village Townhouse Association's ability to continue as a going concern within one year after the date that the 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Hot Springs Village Townhouse 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 Hot Springs Village Townhouse 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.

#### **Report on Required Supplementary Information**

Management has omitted the supplementary information on future 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 missing information.

*Alexander Thompson Arnold PLLC*

Hot Springs, Arkansas

May 12, 2022

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION**  
**BALANCE SHEET**  
December 31, 2021

**Assets**

Current assets

Cash - operating and reserve	\$	1,274,795
Members' assessments and fees receivable		23,489
Prepaid expenses		5,374
Total current assets		1,303,658

Property and equipment

Land		18,201
Bridge		49,585
Equipment and furniture		85,260
Land improvements		671,006
Office building and center		146,476
Parking area		37,026
Parking pads and storage areas		722,331
Total		1,729,885
Less accumulated depreciation		1,099,603
Net property and equipment		630,282
<b>Total assets</b>		<b>1,933,940</b>

**Liabilities and members' equity**

Current liabilities

Accounts payable		11,141
Payroll liabilities		2,028
Deferred credits - assessments received in advance		47,258
Total current liabilities		60,427

Members' equity

Contributions by developer		335,023
Contributions by owners		77,895
Fund balance		1,460,595
Total members' equity		1,873,513
<b>Total liabilities and members' equity</b>		<b>\$ 1,933,940</b>

The accompanying notes are an integral part of these financial statements.

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION  
STATEMENT OF REVENUES AND EXPENSES**

December 31, 2021

<b>Operating revenue</b>	
Members' assessments	\$ 765,024
Sanitation	255,822
Rental fees	115
<b>Total operating revenue</b>	<u>1,020,961</u>
<b>Operating expenses</b>	
Advertising	1,090
Audit	7,850
Bad debt	15,875
Bank	3,235
Collections	300
Community center	995
Computer	2,260
Contracted services and labor	367,680
Depreciation	55,642
Insurance	27,936
Legal	13,984
Maintenance - building	4,873
Maintenance - grounds	88,876
Management fees	50,184
Office supplies and expense	7,604
Taxes - general	1,573
Telephone	3,134
Utilities	16,070
Sanitation expense	256,200
Salaries	72,488
Taxes - payroll	5,894
<b>Total operating expenses</b>	<u>1,003,743</u>
<b>Net operating income</b>	<u>17,218</u>
<b>Other revenue (expenses)</b>	
Interest income	140
Miscellaneous income	20,178
Penalties	3,000
<b>Total other revenue</b>	<u>23,318</u>
<b>Net income</b>	<u>\$ 40,536</u>

The accompanying notes are an integral part of these financial statements.

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
December 31, 2021

	<u>Contributions by Developer</u>	<u>Contributions by Owners</u>	<u>Fund Balance</u>	<u>Members' Equity</u>
<b>Balance - January 1, 2021</b>	\$ 335,023	\$ 77,895	\$ 1,420,059	\$ 1,832,977
<b>Additions (Deductions)</b>				
Net income for the year ended December 31, 2021	-	-	40,536	40,536
<b>Balance - December 31, 2021</b>	<u>\$ 335,023</u>	<u>\$ 77,895</u>	<u>\$ 1,460,595</u>	<u>\$ 1,873,513</u>

The accompanying notes are an integral part of these financial statements.

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION  
STATEMENT OF CASH FLOWS**

December 31, 2021

<b>Cash flows from operating activities</b>	
Net income (loss)	\$ 40,536
<b>Adjustments to reconcile net income to net cash provided (used) by operating activities:</b>	
Depreciation	55,642
Bad debt expense	15,875
(Increase) decrease in current assets:	
Members' assessments and fees receivable	9,791
Prepaid expenses	(1,192)
Increase (decrease) in current liabilities	
Accounts payable	(2,870)
Payroll liabilities	380
Deferred credits - assessments received in advance	<u>(4,014)</u>
Net cash provided by operating activities	<u>114,148</u>
<b>Cash flows from investing activities</b>	
Purchase of equipment	<u>(66,505)</u>
Net cash used in investing activities	<u>(66,505)</u>
Net increase in cash and cash equivalents	47,643
<b>Cash and cash equivalents - January 1</b>	<u>1,227,152</u>
<b>Cash and cash equivalents - December 31</b>	<u>\$ 1,274,795</u>

The accompanying notes are an integral part of these financial statements.



**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

**NOTE 1: Summary of Significant Accounting Policies**

**A. Nature of Organization**

Hot Springs Village Townhouse Association (the Association) was incorporated on July 27, 1971, in the State of Arkansas. The Association is responsible for the operation and maintenance of the common and limited common property in certain tracts of property in Hot Springs Village, Arkansas. The Association consists of 928 residential units.

**B. Basis of Accounting**

The accounting policies of the Association are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applied on a basis consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

**C. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**D. Fair Values**

The carrying amounts, reflected on the balance sheet, of the Association's cash and receivables approximate their respective fair values due to the short maturities of these instruments.

**E. Fixed Assets and Depreciation**

Land, buildings, and improvements, donated by the developer to the Association, are valued at fair-market value as of the date that the property was transferred. Equipment, furniture and improvements purchased by the Association are valued at acquisition cost. Retirements are removed from book valuations based on original cost. Depreciation is computed on the straight-line method based on estimated useful lives of related assets.

Depreciation Expense for 2021 was \$55,642.

**F. Revenue Recognition**

Financial records of the Association are maintained on a full-accrual basis. Gross income from Members' assessments is recorded when earned, and expenses are recognized when incurred. Management and the Finance Committee monitor receivables on an ongoing basis and will directly write off debt when they believe it has become uncollectible.

**G. Receivables**

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from property owners. If assessments are due on a home, they are collectible when the home is sold.

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2021

**H. Income Taxes**

As enacted by the 1976 Tax Reform Act, Section 528 of the Internal Revenue Code allows the Association to elect to be treated as a tax-exempt organization. The tax-exempt status protects the Association from tax only on its exempt-function income that includes Members' dues. The Association is taxed at the rate of 30% on non-exempt function income such as interest and fees. However, a homeowners association that is a corporation may elect to be taxed as a regular corporation if the tax is less in comparison to the tax under Section 528 on non-exempt function income. The Association's form 1120-H US income tax return for homeowners association, for the years 2021, 2020, and 2019, are subject to examination by the IRS generally for three years after they are filed.

**I. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**J. Subsequent Events**

The Association did not have any subsequent events through May 12, 2022 which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021.

**K. Member Assessments**

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Accounts receivable represent fees due from property owners. If assessments are due on a home, they are collectible when the home is sold. All assessments collected in advance, related to the next assessment year, are recorded as unearned revenue.

**L. Pronouncements Issued But Not Yet Adopted**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, a Lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with the current U.S. GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases which seeks to clarify ASU 2016-02 with respect to certain aspects of the update and ASU 2018-11 Leases (Topic 842) – Targeted Improvements which provides transition relief on comparative reporting upon adoption of the updates. These ASUs were originally effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020 but have been extended to include fiscal years beginning after December 15, 2021. Early adoption is allowed. The Association is currently not expecting ASU 2016-02 to impact its financial statements.

**HOT SPRINGS VILLAGE TOWNHOUSE ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." With respect to recognition of credit losses on financial instruments, current standards require an "incurred loss" methodology that delays loss recognition until it is probable that a loss has been incurred. ASU 2016-13 eliminates the "probable" initial recognition threshold in the current general accept accounting principles and significantly broadens the information that entities must consider in making a current estimate of all expected credit losses. The FASB recognized that implementation of this update may require significant effort in gathering that data necessary to estimate expected credit losses. ASU 2016-13 applies to most debt instruments, loans, trade and financing receivables, lease receivables and loan commitments, other than those measured at fair value. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2022. Application of ASU 2016-13 will be applied through a cumulative effect adjustment to beginning retained earnings in the period of adoption. The Association is currently not expecting ASU 2016-13 to impact its financial statements.

**NOTE 2: Cash – Operating and Reserve Funds**

As shown on the balance sheet, at December 31, 2021, cash operating and reserve funds were as follows:

Cash - operating	\$ 685,502
Capital reserve	<u>589,293</u>
Total	<u>\$ 1,274,795</u>

**NOTE 3: Credit Risk**

The Association's bank accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2021, the Association's uninsured balances were \$1,024,668 before reconciling items.

**NOTE 4: Members' Assessments and Fees**

The Associations' board of directors approved an annual budget and assessment package for 2021 for \$1,040,112. This includes assessment income of \$765,024 and sanitation fees of \$275,088. The assessment income is based on equitable rates in keeping with actual costs for each court and approved by members. The budget allocates maintenance and sanitation of all courts to contracting firms.

**NOTE 5 – Risks and Uncertainties**

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease ("COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As a result, the Association adjusted certain aspects of its operations to protect members and the workforce while still meeting the needs of both. The Association cannot reasonably estimate the length of severity of the pandemic, or the extent to which the disruption may materially impact its business, financial operations, and cash flows.