

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**



**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
DECEMBER 31, 2013 AND 2012  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
**Holiday Island Suburban Improvement District #1**  
Holiday Island, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **Holiday Island Suburban Improvement District #1** (the "District") as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The District's 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.

### ***Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 District'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 District'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 qualified audit opinion.

### ***Basis for Qualified Opinion***

As more fully described in Note 1 to the financial statements, the District has elected not to implement the reporting model required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 as of and for the years ended December 31, 2013 and 2012. The effects of this departure from accounting principles generally accepted in the United States of America have not been determined.

### ***Qualified Opinion***

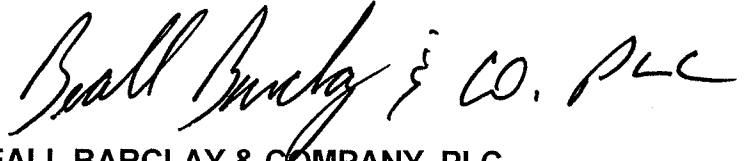
In our opinion, except for the effects, if any, of not implementing GASB Statement No. 34, as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the District as December 31, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplementary information on pages 26 - 28 is presented for purposes of additional analysis as required by the Arkansas Natural Resource Commission and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued a report dated June 17, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beall Barclay & Co. PLC". The signature is written in a cursive, flowing style.

**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Rogers, Arkansas  
June 17, 2014



**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,534,815	\$ 2,270,239
Certificates of deposit - designated	1,298,395	1,267,718
Assessments receivable, net	120,774	116,547
Accounts receivable	68,943	58,843
Accrued interest receivable	1,084	-
Inventory - pro shop	45,746	52,149
Prepaid expenses	52,493	48,861
	<u>4,122,250</u>	<u>3,814,357</u>
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Restricted cash and cash equivalents	60,960	60,966
	<u>21,092,331</u>	<u>21,899,712</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, NET</b>		
Total Assets	<u>\$ 25,275,541</u>	<u>\$ 25,775,035</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 290,223	\$ 156,652
Current portion of bonds payable	225,331	219,252
	<u>515,554</u>	<u>375,904</u>
<b>BONDS PAYABLE</b>		
	<u>4,937,382</u>	<u>5,162,713</u>
<b>NET POSITION</b>		
Contributed capital - net of accumulated depreciation	1,380,357	1,404,573
Retained earnings		
Reserved for debt service	981,604	872,708
Designated	1,298,395	1,267,718
Undesignated	16,162,249	16,691,419
	<u>18,442,248</u>	<u>18,831,845</u>
Total Net Position	<u>19,822,605</u>	<u>20,236,418</u>
Total Liabilities and Net Position	<u>\$ 25,275,541</u>	<u>\$ 25,775,035</u>

See Independent Auditors' Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>OPERATING REVENUES</b>		
Assessments, net	\$ 1,657,890	\$ 1,559,728
Water and sewer	626,693	701,572
Fees, sales, and rental	668,986	656,060
Debt service assessments	480,627	424,149
Activity cards	61,716	97,605
Other	177,444	301,067
	<u>3,673,356</u>	<u>3,740,181</u>
<b>OPERATING EXPENSES</b>		
Water and sewer	630,456	493,412
Streets and roads	297,842	412,615
Fire and security protection	212,579	259,535
Recreation	122,184	118,280
18 hole golf course	303,827	323,993
9 hole golf course	81,203	76,087
Clubhouse, restaurant, marina and pro shop	380,083	371,566
General and administrative	927,519	587,986
	<u>2,955,693</u>	<u>2,643,474</u>
Net operating income before depreciation	717,663	1,096,707
Less: depreciation	<u>(1,006,855)</u>	<u>(1,013,554)</u>
Net operating income (loss)	<u>(289,192)</u>	<u>83,153</u>
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>		
Gain on disposal of property and equipment	-	2,131
Interest income	20,886	18,224
Interest expense	<u>(145,507)</u>	<u>(176,875)</u>
Total other nonoperating revenues (expenses)	<u>(124,621)</u>	<u>(156,520)</u>
Net (loss)	(413,813)	(73,367)
Retained earnings - beginning of year	18,831,845	18,880,996
Depreciation on fixed assets acquired by contributed capital	<u>24,216</u>	<u>24,216</u>
Retained earnings - end of year	<u><u>\$ 18,442,248</u></u>	<u><u>\$ 18,831,845</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating income (loss)	\$ (289,192)	\$ 83,153
Adjustments to reconcile net operating income (loss) to net cash from operating activities:		
Depreciation	1,006,855	1,013,554
In-kind contribution	(6,011)	(28,659)
Allowance for uncollectible assessments	(588,214)	396,927
Change in:		
Assessments receivable, gross	583,987	(300,341)
Accounts receivable	(10,100)	14,471
Inventory - pro shop	6,403	12,095
Prepaid expenses	(3,632)	250
Accounts payable and accrued expenses	135,686	13,991
Total Adjustments	1,124,974	1,122,288
Net Cash From Operating Activities	835,782	1,205,441
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(219,252)	(213,353)
Proceeds from issuance of bonds	-	13,459
Interest paid	(147,622)	(151,098)
Net Cash (Used For) Capital and Related Financing Activities	(366,874)	(350,992)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	7,542	2,131
Acquisition of property, plant, and equipment	(201,005)	(359,756)
Change in certificates of deposit	(30,677)	(10,254)
Interest received	19,802	19,788
Net Cash (Used For) Investing Activities	(204,338)	(348,091)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	264,570	506,358
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,331,205	1,824,847
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 2,595,775	\$ 2,331,205
<b>CASH AND CASH EQUIVALENTS</b>	\$ 2,534,815	\$ 2,270,239
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	60,960	60,966
	\$ 2,595,775	\$ 2,331,205

See Independent Auditors' Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Holiday Island Suburban Improvement District #1 ("the District") is a public corporation organized July 2, 1970 under the Arkansas Suburban Improvement District Law to provide Holiday Island, Arkansas, with a public road system, waterworks system, sewage system, fire protection services and facilities, and recreational facilities. Substantially all revenues are derived from the provision of the services described above to the property owners of Holiday Island, Arkansas.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units with the exception of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 34 as discussed below. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) of accounting principles for pronouncements issues on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District does not apply FASB Codification of accounting principles for pronouncements whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

The most significant of the District's accounting policies are described below.

***Reporting Entity***

For financial reporting purposes, in conformity with GASB Statement No. 14 "*The Financial Reporting Entity*," the District includes all funds over which the District Commissioners exercise financial accountability. Financial accountability as defined by GASB Statement No. 14 was determined based on the District's ability to impose its will on operations, to select the governing authority, and on the District Commissioners' potential to provide financial benefits or to impose financial burdens on the District.

***Fund Types***

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The various funds are grouped in the financial statements into one fund type as follows:

**Proprietary Fund Types**

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

***Cash and Cash Equivalents***

For purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents. At December 31, 2013 and 2012, the District had no cash equivalents.

***Restricted Cash and Cash Equivalents***

Restricted cash consists of amounts held in a trust account for the purpose of debt service. At December 31, 2013 and 2012, the District had a restricted cash balance of \$60,960 and \$60,966, respectively.

***Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statements of Net Position. Net position is segregated into contributed capital and retained earnings components.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

***Inventory – Pro Shop***

Inventory consists of merchandise held for sale and is stated at the lower of cost or market, on a first in, first out basis. Merchandise held for sale primarily consists of golf-related items.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***GASB Statement No. 34***

GASB issued GASB Statement No. 34, which became effective for the District for the year ended December 31, 2004. This statement requires governments to provide a Management Discussion and Analysis with their financial statements as well as change the presentation of certain items in the financial statements to a new reporting model. The District has elected not to implement GASB Statement No. 34. The effects of this departure from accounting principles generally accepted in the United States of America have not been determined.

***Income Taxes***

Income of the District is derived from the exercise of essential governmental functions and accrues to the District, a political subdivision of the State of Arkansas. It is, therefore, not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

***Property, Plant, and Equipment***

Property, plant, and equipment is carried at cost or fair market value at date of donation if the asset was contributed. Depreciation has been computed on the straight-line basis over the estimated useful lives of the assets. The District capitalizes all expenditures for property, plant, and equipment with a useful life greater than one year and with an initial cost of greater than \$5,000. Fully depreciated assets still in use by the District totaled approximately \$5,810,969 and \$5,627,000 at December 31, 2013 and 2012, respectively. During the year ended December 31, 2012, the District fire department received a contribution of a truck with an estimated fair market value of \$28,659. During the year ended December 31, 2013, the District received a contribution of property with an estimated fair market value of \$6,011.

The estimated useful lives of assets are as follows:

<b>ASSETS</b>	<b>USEFUL LIVES IN YEARS</b>
9 hole golf course	7 - 50
18 hole golf course	5 - 50
19 <sup>th</sup> hole restaurant	15 - 20
Buildings	10 - 50
Fire department equipment	5 - 20
Public works	5 - 20
Recreational facilities	5 - 20
Resource management	3 - 10
Sewer system	10 - 50
Streets and roads	10 - 75
Water system	3 - 50

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Current Accounting Developments***

In June 2012, the GASB issued Statement Number 67 (GASB 67), *Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25*, effective for fiscal years beginning after June 15, 2014. GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

In June 2012, the GASB issued Statement Number 68 (GASB 68), *Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

***Assessments Receivable and Uncollectible Accounts***

Assessments receivable relate to assessments on property and related debt service assessments. Uncollectible accounts for assessments receivable have been provided for using the allowance method. The allowance is based on management's estimate of the overall collectability of assessments receivable based on historical experience and identification of specific accounts which management believes may be uncollectible. Based on these same factors, individual accounts are charged off against the allowance when management forecloses on the lots. Past-due accounts are charged a 25% penalty. The allowance for uncollectible accounts for assessments receivable amounted to \$70,108 and \$658,322 as of December 31, 2013 and 2012, respectively.

***Assessments***

Assessments are recorded as revenues in the year levied. The assessments are levied on January 1 and are due by October 10 for the current year.

***Accounts Receivable***

Accounts receivable relate to water and sewer billings and related debt service charges. Based on historical data, over 95% of water and sewer billings are collected within 60 days, thus an allowance for uncollectible accounts is not considered necessary. In the event accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized. Past-due status is based on contractual terms. Past-due accounts are charged interest monthly. The interest rate is based on the federal discount rate. A past-due account continues to draw interest charges until it is either paid or written off.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***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 statement and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Long-Lived Assets***

FASB Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the District's reported earnings, financial condition or cash flows.

***Subsequent Events***

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

**NOTE 2: ASSESSMENTS**

The District's Board of Commissioners approves the amount of the yearly assessment of property owners based on the zoning. This assessment, due October 10th, reflects the projected cash requirements of the District, taking into consideration the revenues received through the sale of water and sewer services and rental and interest income.

**NOTE 3: STATE ASSISTANCE**

During the years ended December 31, 2013 and 2012, the District received State assistance of \$16,081 and \$16,129, respectively, from the Fire Protection Services Program, founded by Arkansas Act 833 and administered by the Arkansas Department of Finance and Administration. These amounts are reported as "Other Operating Revenues" in the Statements of Revenues, Expenses, and Changes in Retained Earnings.

**NOTE 4: NET POSITION**

Reservations of fund balance of governmental funds are created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated, or (2) identify the portion of the fund balance that is not appropriate for future expenditures.



**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 5: DEPOSITS IN FINANCIAL INSTITUTIONS**

State law generally requires that District funds be deposited in federally insured banks located in the State of Arkansas. The District deposits may be in the form of checking accounts, savings accounts, and time deposits. District funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest of which are fully guaranteed by the United States of America.

Deposits include funds invested in commercial money market accounts and certificates of deposit. These funds bear interest at rates ranging from 0.20% to 0.85% at December 31, 2013 and 2012.

The amounts of deposits are displayed on the Statements of Net Position as "Cash and cash equivalents" and "Certificates of deposit." Also included in "Cash and cash equivalents" on the Statements of Net Position is petty cash amounting to \$1,350 at December 31, 2013 and 2012.

At December 31, 2013, bank balances insured and collateralized with a letter of credit from the Federal Home Loan Bank of Dallas are \$250,000 and \$3,729,624, respectively.

**NOTE 6: DEFERRED COMPENSATION PLAN**

The District sponsors a deferred compensation plan under Internal Revenue Code Section 457 covering eligible employees who have completed three months of continuous service. The District matches 100% of employee contributions up to 5% of the employee's compensation. The cost of such contributions by the District was \$25,791 and \$23,841, respectively, during the years ended December 31, 2013 and 2012 on salaries of participants of \$502,105 and \$476,824, respectively.

**NOTE 7: OPERATING LEASES**

The District leases golf carts under a noncancelable operating lease. The lease expires in 2014. The minimum lease payment under the operating lease is \$27,108 next year.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 8: CERTIFICATES OF DEPOSIT – DESIGNATED**

The District's Commissioners have designated certificates of deposits for the following reserve funds:

***Undesignated Reserve Fund***

The Undesignated Reserve Fund was approved by the Board of Commissioners of Holiday Island during 2003. The purpose of the Undesignated Reserve Fund is to secure and maintain investment-grade credit ratings, generate interest income, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures or to revenue shortfalls. The balance in the Undesignated Reserve Fund shall not be less than 35 percent and no more than 45 percent of operating expenditures. It shall not be used to fund operating expenditures in the adopted budget. The balance at December 31, 2013 and 2012 was \$1,031,009 and \$1,167,718, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 35% and 44% at December 31, 2013 and 2012, respectively.

***Equipment Reserve Fund***

The Equipment Reserve Fund was approved by the Board of Commissioners of Holiday Island during 2003. It will be maintained in an amount adequate to finance the scheduled replacement of vehicles and equipment. The Equipment Reserve Fund will, at the end of each fiscal year, have a minimum balance of \$100,000, or 5 percent of the book value of the District's vehicle and equipment inventory, whichever is greater. The depreciation amount assigned to the vehicle and equipment inventory shall be budgeted annually and that amount transferred to the Equipment Reserve Fund. During 2005, the regulation that created the equipment reserve fund was amended to clarify the equipment and vehicles from which the reserve fund is calculated should be those vehicles and equipment placed in service since 2000. During 2011, the regulation was again amended to allow the Board of Commissioners to elect to suspend the transfer of annual depreciation of vehicles and equipment placed in service since 2000 to that account in the event no equipment reserve purchases are budgeted for the fiscal year. The balance at December 31, 2013 and 2012 was \$267,386, and \$100,000, respectively.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 9: BONDS PAYABLE**

In October 2008, the District authorized the issuance of Holiday Island Suburban Improvement District Special Assessment and Sewer Revenue Bonds, Series 2008, in an amount not to exceed \$5,600,000 for the purpose of financing the costs of acquisition, construction, and equipping of an expansion and upgrade to the District's wastewater treatment plant. Interest is payable semiannually in April and October of each year starting in 2009. The bonds bear interest at a rate of 1.75% and are subject to a servicing fee of 1%. Principal payments commenced in 2012 and are also payable semiannually. The maturity date of the bonds is October 15, 2031. The bonds are secured by a pledge of and are payable from, special assessments and sewer system revenues. The purchaser of these bonds has pledged the bonds as collateral against the Arkansas Development Finance Authority Revolving Loan Fund.

Annual requirements to amortize outstanding bonded debt are shown in the schedule below.

	<u>Principal</u>	<u>Interest</u>	<u>Servicing Fee</u>	<u>Total</u>
2014	\$ 225,331	\$ 89,451	\$ 51,114	\$ 365,896
2015	231,571	85,480	48,845	365,896
2016	237,982	81,400	46,514	365,896
2017	244,572	77,206	44,118	365,896
2018	251,344	72,896	41,656	365,896
2019 – 2023	1,365,048	295,548	168,884	1,829,480
2024 – 2028	1,564,792	168,438	96,250	1,829,480
2029 – 2031	<u>1,042,073</u>	<u>32,421</u>	<u>18,526</u>	<u>1,093,020</u>
	<u>\$ 5,162,713</u>	<u>\$ 902,840</u>	<u>\$ 515,907</u>	<u>\$ 6,581,460</u>

A summary of changes in bonds payable follows:

	December 31, 2012	Additions	Retirements	December 31, 2013	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 5,381,965</u>	<u>\$ -</u>	<u>\$ 219,252</u>	<u>\$ 5,162,713</u>	<u>\$ 225,331</u>
	December 31, 2011	Additions	Retirements	December 31, 2012	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 5,581,859</u>	<u>\$ 13,459</u>	<u>\$ 213,353</u>	<u>\$ 5,381,965</u>	<u>\$ 219,252</u>

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 10: LOCAL POLICE AND FIRE RETIREMENT SYSTEM**

***Plan Description***

The District contributes to the Arkansas Local Police and Fire Retirement System (LOPFI), an agent multiple-employer retirement system that acts as a common investment and administrative agent for municipalities in Arkansas.

LOPFI was established by Ark. Code Ann. 24-20-101 through 105, 205, 301/302, 401, 501/504, 601 through 616 and 24-11-810 and became operative January 1, 1983. Policemen and firemen employed January 1, 1983 or later are automatically covered by LOPFI.

Normal retirement age under the plan is 55 with 20 years of credited service, or 60 with less than 20, but at least 5 years of credited service or any age for a member with 20 or more years of credited service. The normal retirement benefit, paid on a monthly basis, is determined based upon (1) the participant's amount and type of credited service, (2) whether or not the participant's paid service is covered by social security and (3) the participant's final average pay.

An early retirement option, with reduced benefits, is available to participants attaining the age of 50 with 20 years of credited service. A participant who terminates employment prior to attaining early retirement age, but has completed ten or more years of credited service, may receive future benefits under the plan if the participant does not withdraw the participant's accumulated contributions and lives to the participant's annuity starting date. The plan also provides for disability and survivor benefits.

LOPFI issues a financial report that includes financial statements and all required supplementary information. That report may be obtained by writing Local Police and Fire Retirement System, One Union National Plaza, 124 West Capitol, Suite 1750, Little Rock, Arkansas 72201 or calling 1-501-682-1745.

***Funding Policy***

Active firefighters who do not contribute to social security are required to contribute 8.5% of their annual covered salary. The District contributes the remaining amounts necessary to finance its employees' participation; the rate was 15.59% and 14.59% of annual covered payroll for the years ended December 31, 2013 and 2012, respectively. For the calendar year ended December 31, 2014, the District's contribution rate is 16.59%. During the years ended December 31, 2013 and 2012, the District contributed \$5.40 and \$5.00, respectively, per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. For the calendar year ended December 31, 2014, the District is required to contribute \$5.40 per member per month. The contribution requirements of plan members and the District are established and may be amended by the LOPFI Board of Trustees.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 10: LOCAL POLICE AND FIRE RETIREMENT SYSTEM – CONTINUED**

***Annual Pension Cost – Volunteer Firemen***

For the years ended December 31, 2013 and 2012, the District's annual pension cost of \$2,729 and \$5,829, respectively, for LOPFI was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2010 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions effective for the 2012 valuation included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increases of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from .5% to 15% per year, attributable to seniority/merit, (d) the assumption that benefits will increase 3% per year, and (e) pre- and post-retirement mortality based on the RP-2000 Combined Projected to 2007 Table, set forward two years for men. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as an increasing dollar amount. The amortization period as of December 31, 2012 was 10 years.

***Schedule of Funding Progress - Volunteer Firemen***

<b>Actuarial Valuation Date</b>	<b>Entry Age Actuarial Accrued Liability (a)</b>	<b>Actuarial Value of Assets (b)</b>	<b>Unfunded Accrued Liability (UAL) (a-b)</b>	<b>Funded Ratio (b/a)</b>
2010	\$ 20,863	\$ 6,408	\$ 14,455	31%
2011	\$ 21,180	\$ 5,283	\$ 15,897	25%
2012	\$ 21,974	\$ 6,469	\$ 15,505	29%

An actuarial report was not available for the year ended December 31, 2013.

***Plan Change – Paid Firemen***

During the 2011 Session of the Arkansas General Assembly, Arkansas Code related to LOPFI was modified so that all LOPFI paid service employers would contribute based on a uniform rate for their members participating in LOPFI. An actuarial valuation is performed to determine the uniform rate. Individual employer valuations will no longer be prepared. Instead a compiled report is accessible via the LOPFI's website. The uniform rate for the 2014 calendar year was computed to be 18.97% of active member payroll. The District's applicable rate for 2014 is 16.59% of active member payroll. It is anticipated that the District's applicable rate will increase by the maximum allowed of 1% of active member payroll each year until all or most employers can be merged into a single uniform paid service employer rate.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 10: LOCAL POLICE AND FIRE RETIREMENT SYSTEM – CONTINUED**

***Annual Pension Cost – Paid Firemen***

For the years ended December 31, 2013 and 2012, the District's annual pension cost of \$23,861 and \$29,361 respectively, for LOPFI was equal to the District's required and actual contributions. The required contribution was determined as part of the December 31, 2011 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increases of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 0.3% to 6% per year, attributable to seniority/merit, (d) pre- and post-retirement mortality based on the RP – 2000 Combined Projected to 2007 Table, set forward two years for men, and (e) annual compounded post-retirement increases of 3% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability (and assets in excess of actuarial accrued liability) is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of December 31, 2012 was 30 years.

***Schedule of Funding Progress - Paid Firemen – LOPFI and Local Plan Uniform Rate***

<u>Actuarial Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (a)</u>	<u>Actuarial Value of Assets (b)</u>	<u>Unfunded Accrued Liability (UAL) (a-b)</u>	<u>Funded Ratio (b/a)</u>
2010	\$ 1,519,527,855	\$ 982,154,992	\$ 537,372,863	65%
2011	\$ 1,654,156,087	\$ 1,070,685,918	\$ 583,470,169	65%
2012	\$ 1,805,815,641	\$ 1,169,357,127	\$ 636,458,514	65%

An actuarial report was not available for the year ended December 31, 2013.

Following is the three year funding information for LOPFI for the District:

<u>Fiscal Year Ended December 31</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	13,189	100%	-
2012	29,361	100%	-
2013	23,861	100%	

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 11: MARINA LEASES**

During the year ended December 31, 2000, the District entered into a lease with the United States Secretary of the Army for a marina on Table Rock Lake. The lease expires in 2019. Rental payments under the lease are calculated as a percentage of gross receipts of the marina, ranging from 2% to 4.6%. For the years ended December 31, 2013 and 2012, the rate was 2.2% of gross receipts. The District paid approximately \$1,800 under this lease during the years ended December 31, 2013 and 2012.

During the year ended December 31, 2000, the District began subleasing the marina on Table Rock Lake to Marina Concessions, LLC (Marina Concessions). The lease expires December 31, 2014. Payments under the lease are as follows: \$1 per year for rent, plus Marina Concessions can retain between 43% and 45% of all boat slip rental payments collected up to \$75,000. The remaining amount is remitted to the District. During the years ended December 31, 2013 and 2012, rental payments received by the District under sublease totaled approximately \$147,000 and \$148,000, respectively, and are included in "Fees, sales, and rental" operating revenues in the Statements of Revenues, Expenses, and Changes in Retained Earnings, net of rental payments to the United States Secretary of the Army.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 12: PROPERTY, PLANT, AND EQUIPMENT**

A summary of changes in property, plant, and equipment follows:

	January 1, 2012	Additions	Disposals
9 hole golf course	\$ 1,170,629	\$ 4,788	\$ (9,500)
18 hole golf course	1,156,233	29,272	(112,742)
19th hole restaurant	50,445	-	-
Buildings	4,027,717	87,376	-
Fire department equipment	995,354	28,659	(13,363)
Land	1,499,173	-	-
Public works	985,246	-	(7,816)
Recreational facilities	790,501	-	(10,349)
Resource management	120,111	-	(53,402)
Sewer system	18,039,368	21,350	-
Streets and roads	7,511,668	216,970	-
Water system	<u>7,195,116</u>	<u>-</u>	<u>-</u>
Total	43,541,561	388,415	(207,172)
Less:			
Accumulated depreciation	<u>(21,016,710)</u>	<u>(1,013,554)</u>	<u>207,172</u>
	<u><u>\$ 22,524,851</u></u>	<u><u>\$ (625,139)</u></u>	<u><u>\$ -</u></u>



December 31, 2012	Additions	Disposals	December 31, 2013
\$ 1,165,917	\$ -	\$ -	\$ 1,165,917
1,072,763	5,865	-	1,078,628
50,445	-	-	50,445
4,115,093	-	-	4,115,093
1,010,650	-	-	1,010,650
1,499,173	6,011	(6,011)	1,499,173
977,430	-	-	977,430
780,152	-	-	780,152
66,709	15,208	-	81,917
18,060,718	-	-	18,060,718
7,728,638	61,105	-	7,789,743
7,195,116	117,296	-	7,312,412
<hr/>	<hr/>	<hr/>	<hr/>
43,722,804	205,485	(6,011)	43,922,278
(21,823,092)	(1,006,855)	-	(22,829,947)
<hr/>	<hr/>	<hr/>	<hr/>
\$ 21,899,712	\$ (801,370)	\$ (6,011)	\$ 21,092,331
<hr/>	<hr/>	<hr/>	<hr/>

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Segment information for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Operating Revenues	\$ 3,673,356	\$ 3,740,181
Operating Expenses	2,955,693	2,643,474
Depreciation	1,006,855	1,013,554
Operating Income (Loss)	(289,192)	83,153
Nonoperating Revenues	(124,621)	(156,520)
Net (Loss)	(413,813)	(73,367)
Property, Plant and Equipment:		
Additions	205,485	388,415
Disposals	6,011	207,172
Total Assets	25,275,541	25,775,035
Bonds and Other Long-Term Liabilities		
Payable from Operating Revenues	4,937,382	5,162,713
Total Liabilities	5,452,936	5,538,617
Total Fund Equity	19,822,605	20,236,418

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
**Holiday Island Suburban Improvement District #1**  
Holiday Island, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Holiday Island Suburban Improvement District #1** (the "District") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 17, 2014. In our report, our opinion was qualified because the District has elected not to implement the reporting model required by the provisions of GASB Statement No. 34 as of and for the years ended December 31, 2013 and 2012.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses as item 2013-001, we did identify a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As described above, we identified a certain deficiency in internal control that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
BEALL BARCLAY & COMPANY, PLC  
Certified Public Accountants

Rogers, Arkansas  
June 17, 2014

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2013**

**2013-001: Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America**

**Condition:** As a part of the audit engagement, we assisted management in the preparation of the District's financial statements. Although management reviewed and approved the financial statements and related footnotes, management's current system of internal control lacks adequate controls to ensure the propriety, adequacy, completeness, and classification in the financial statements, including disclosures, prepared in accordance with the accrual basis method of accounting. During our audit, we noted multiple accounts that required adjusting journal entries, including: property, plant, and equipment, accounts payable, accrued expenses, and the allowance for uncollectable assessments.

**Criteria and Cause:** Internal control over financial reporting includes management's controls over the preparation of financial statements and the related footnotes prepared in accordance with the accrual basis method of accounting. An auditor can assist in assembling or drafting the financial statements and related footnotes; however, an auditor cannot be part of District's internal control. Management must have the technical expertise and knowledge to ensure the propriety and completeness of the information in the financial statements, including disclosures in the related footnotes.

**Effect:** Under the current process, errors or omissions in the footnote disclosures to the consolidated financial statements might not be prevented or detected and corrected on a timely basis by the District's management.

**Recommendation:** We understand that management feels that its current controls over the preparation of financial statements are adequate and that implementing additional controls is not practical or feasible with District's current staff and resources. We recommend that management continue to evaluate the cost/benefit of improving internal control over the preparation of financial statements and the related disclosures and implement additional controls as considered necessary.

**Views of Responsible Officials and Planned Corrective Actions:** The District will make every effort to implement the recommended procedures in order to strengthen their internal controls regarding the preparation of financial statements.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2013**

**2012-001: Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America**

**Condition:** During the year ended December 31, 2012, we assisted management in the preparation of the District's financial statements. Although management reviewed and approved the financial statements and related footnotes, management's current system of internal control lacks adequate controls to ensure the propriety, adequacy, completeness, and classification in the financial statements, including disclosures, prepared in accordance with the accrual basis method of accounting.

**Recommendation:** It was recommended that management continue to evaluate the cost/benefit of improving internal control over the preparation of financial statements and the related disclosures and implement additional controls as considered necessary.

**Status:** This finding has not been corrected by the District. See current year finding 2013-001.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN RETAINED EARNINGS - WATER AND SEWER OPERATIONS ONLY  
YEAR ENDED DECEMBER 31, 2013**

**OPERATING REVENUES**

Charges for services	\$ 626,693
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**OPERATING EXPENSES**

Miscellaneous	\$ 7,429
Operations and maintenance	437,577
Salaries and related benefits and taxes	<u>185,450</u>

630,456

Net operating income before depreciation	(3,763)
Less: depreciation	<u>(575,255)</u>

<b>NET (LOSS)</b>	<u>(579,018)</u>
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<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<u>8,766,630</u>
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<b>RETAINED EARNINGS, END OF YEAR</b>	<u><u>\$ 8,187,612</u></u>
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See Independent Auditors' Report.

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
MISCELLANEOUS SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2013**

1. Monthly Water/Sewer Rates: All water and sewer charges shall be based on water consumption, and the amount to be paid by each customer shall be computed on the basis of the following schedule of rates at December 31, 2013:

**Water Services:**

Minimum charge for first 1,500 gallons	\$	8.10
Rate for next 28,500 gallons, per 1,000 gallons		4.70
Rate for 30,001 gallons and above, per 1,000 gallons		2.34

**Sewer Services:**

Minimum charge for first 1,500 gallons	\$	7.50
Rate per 1,000 gallons thereafter		4.85

**Debt Service Charges:**

Minimum charge for first 1,500 gallons	\$	9.25
Rate per 1,000 gallons thereafter		2.47

2. The total number of water/sewer customers billed during the year ended December 31, 2013 averaged 1,685 per month.
3. Total gallons billed to water/sewer customers during the year ended December 31, 2013 amounted to 71,093,060.
4. Total dollars billed to water/sewer customers during the year ended December 31, 2013 amounted to \$811,849, which includes charges for service and debt assessments.
5. There is 196% debt service coverage for all debt service requirements.
6. There is no restricted account holding the tax revenues pledged as a revenue source for repayment of Arkansas Development Finance Authority debt. This obligation is payable solely from the revenues derived from the operation of the water and sewer system and special assessments.
7. At December 31, 2013, reserved assets in enterprise funds consisted of one reserved cash account for the repayment of debt service. The balance of the account at December 31, 2013 was \$920,644. At December 31, 2013, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2013 was \$60,960.



**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
MISCELLANEOUS SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2013**

8. A schedule of insurance policies in effect at December 31, 2013 is as follows:

<u>Insurance Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
Great American Insurance Group	Commercial Property, Equipment and Other	\$19,787,279	5-10-14
Great American Insurance Group	Earthquake	\$5,000,000	5-10-14
Great American Insurance Group	Flood	\$5,000,000	5-10-14
Arkansas Municipal Vehicle Program	Vehicles Liability	\$25,000/\$30,000	8-24-14
	Physical Damage	\$1,543,078	8-24-14

