

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
DECEMBER 31, 2015 AND 2014  
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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, 2015 and 2014, 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 auditors consider 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 audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the District as December 31, 2015 and 2014, and the changes in its net position and cash flows for the years then ended in accordance 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 27-29 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 December 27, 2016, 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.

## ***Other Matters***

In our report dated July 13, 2015, we expressed an opinion that the 2014 financial statements did not present the net position of the District as of December 31, 2014, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America because the District did not elect to implement the reporting model required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34. The District has elected to change its accounting policy to implement GASB 34 and has retrospectively applied the change to its 2014 financial statements as required. Accordingly, our present opinion on the 2014 financial statements, as presented herein, is different from that expressed in our previous report.

*Beall Barclay & Company, PLC*

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

Rogers, Arkansas  
December 27, 2016

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015, 2014 AND 2013**

**Using This Annual Report**

This annual report consists of a management's discussion and analysis (this section), basic financial statements, and notes to the financial statements. The basic financial statements are comprised of a series of financial statements: The Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide information about the Suburban Improvement District's activities and present an overview of the Suburban Improvement District's finances. The notes to financial statements will explain some of the information presented in the basic financial statements and provide more detailed data. Since Suburban Improvement Districts are special purpose governments, they are able to combine the government-wide and fund financial statements into single presentations. The Holiday Island Suburban Improvement District has elected to present in this format.

**Discussion and Analysis**

The purpose of the Management's discussion and analysis (MD&A) is to introduce the basic financial statements and provide an analytical overview of the government's financial activities. This discussion and analysis of the financial performance of the Holiday Island Suburban Improvement District provides an overview of the District's financial activities for the year ending December 31, 2015.

The Holiday Island Suburban Improvement District was organized in 1970 for the purposes of providing water and sewer utility services, roads, fire and EMS emergency services, and recreational opportunities for the primary benefit and enjoyment of Holiday Island property owners. The management of Holiday Island utilities, public facilities, emergency services, and recreational amenities are overseen by a district manager who answers to an elected five-member board of commissioners.

The ability to sustain Holiday Island's utilities, public facilities, emergency services, and recreational amenities as well as the District's long-term financial health is the principal concerns of the district manager and board of commissioners. 2015 presented several financial and managerial challenges for the District. The unanticipated resignation of the district manager, natural disasters and act of God losses, a user fee structure insufficient to cover deferred maintenance for the utilities and the operational expenses of the recreational amenities, and a weak local economy all adversely impacted the finances of the District.

For the majority of 2015, the district manager position was either vacant or filled with an interim manager. The effect a sudden turnover in the district manager position has on the district finances is unknown; however, the assumption is that the district manager has a significant impact on organizational performance and the situation is worth mentioning in this discussion.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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During 2015, Holiday Island experienced an above average number of moderate to severe weather events including: major flooding, wind storms, ice storms and infrastructure losses due to lightning strikes. The full financial effects that severe weather has on the District's finances and human resources is unknown; however, it's clear that adverse weather presents a constant threat. During 2015, the roads department applied 384 tons of traction material and over 1,000 gallons of deicing chemicals to the roadways, cleared numerous tree blowdowns, and embarked on sizeable cleanup efforts following two different 100-year floods. Lightning strikes destroyed a well pump for the drinking water system and severely damaged the golf course irrigation system. The December 2015 flood dislocated several sea anchors and broke several anchor cables at the marina. Responding to weather events is demanding on limited human resources, disrupts normal operations, and is financially draining when either the number or severity of weather events surpasses the District's preparation.

The Board of Commissioners made key financial decisions and took decisive actions to effectively cope with 2015's unexpected challenges and ended the year in a reasonably healthy position.

- The board reduced the 2015 budgeted operating expenditures by \$29,670.
- The board increase Marina slip rentals by \$100 for each slip for 2015 and established a planned 5% annual rate increase effective through 2019.
- The board increase golf activity cards by 5% for 2015 and established a planned 5% annual rate increase effective through 2019.

**Financial Highlights for Holiday Island Suburban Improvement District**

- The Suburban Improvement District adopted the provision of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments during the year ending December 31, 2015. While the District's financial statements for years ending December 31, 2013 and December 31, 2014 were presented fairly in all material respects, the nonconformity with GASB 34 was the basis for a qualified opinion for 2013 and 2014.
- The Suburban Improvement District's current assets decreased by \$113,920 or 2.86% and the value for the District's property, plant, and equipment decreased by \$388,372 or 1.87% from the prior year. The decrease in assets and the loss of value for property, plant, and equipment contributed to the District's total assets decreasing by \$502,292 or 2.02% from the prior year.
- The Suburban Improvement District reduced its total liabilities by \$256,836 or 4.74% from 2014

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- The Suburban Improvement District's 2015 operating revenues exceeded its 2015 operating expenses. Revenues increased by \$110,442, or 3.06% compared to expenses increasing by \$34,245, or 1.24% from 2014. The resulting (before depreciation) net operating income of \$925,955 increased by \$76,197 or 8.97% from the prior year. After applying a \$1,059,109 non-cash expense for depreciation, the District experienced a net operating loss of \$133,154.
- The Suburban Improvement District's end of year net position decreased by \$225,240 or 1.24% from 2014.
- Assessment of Benefits 2015 net revenue increased by \$16,113 or 0.97% from 2014.
- The Suburban Improvement District's net cash from operating activities increased by \$164,567 or 23.99% from 2014
- Water and Sewer 2015 operating expenses exceeded 2015 operating revenues by \$198. Revenues increased by \$48,050, or 7.35% compared to expenses increasing by \$70,416 or 11.16% from 2014.
- 2015 operating expenses for streets and roads maintenance decreased by \$26,687 or 7.48% from 2014.
- 2015 operating expenses for Law Enforcement, Fire, and Emergency Medical Services increased by \$19,747 or 9.43% from 2014.
- 2015 Recreational Activity Card revenue decreased by \$838 or 0.81% from 2014.
- 2015 operating expenses for recreational activities and facilities, including: 18-hole and 9-hole golf courses, recreation center, clubhouse, restaurant, marina and pro shop decreased by \$47,928 or 5.19% from 2014.

**Basic Financial Statements**

One of the most important questions asked about the Holiday Island Suburban Improvement District's finances is, "Is the Suburban Improvement District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position and the Statement of cash Flows report information about the Suburban Improvement District's activities in a way that helps answer this question.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015, 2014 AND 2013**

**Financial Highlights**

**Assets, Liabilities and Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Total current assets	\$ 3,876,057	\$ 3,989,977	\$ 4,122,250
Restricted cash and investments	60,960	60,960	60,960
Other noncurrent assets	<u>20,421,871</u>	<u>20,810,243</u>	<u>21,092,331</u>
Total assets	<u>\$ 24,358,888</u>	<u>\$ 24,861,180</u>	<u>\$ 25,275,541</u>
<b>Liabilities</b>			
Total current liabilities	\$ 446,488	\$ 449,970	\$ 515,554
Noncurrent liabilities	<u>4,630,156</u>	<u>4,879,510</u>	<u>4,937,382</u>
Total liabilities	<u>\$ 5,076,644</u>	<u>\$ 5,329,480</u>	<u>\$ 5,452,936</u>
<b>Net Position</b>			
Contributed capital, net	\$ 1,331,925	\$ 1,356,141	\$ 1,380,357
Reserved for debt service	1,086,024	1,026,922	981,604
Designated	1,434,988	1,304,774	1,298,395
Undesignated	<u>15,429,307</u>	<u>15,843,863</u>	<u>16,162,249</u>
Total net position	<u>\$ 19,282,244</u>	<u>\$ 19,531,700</u>	<u>\$ 19,822,605</u>

**Operating Results and Changes in Net Position**

<b>Operating revenues</b>	<u>\$ 3,723,077</u>	<u>\$ 3,612,635</u>	<u>\$ 3,673,356</u>
<b>Operating expenses</b>			
Depreciation	1,059,109	1,026,917	1,006,855
Other operating expenses	<u>2,797,122</u>	<u>2,762,877</u>	<u>2,955,693</u>
Total operating expenses	<u>3,856,231</u>	<u>3,789,794</u>	<u>3,962,548</u>
<b>Operating income</b>	<u>(133,154)</u>	<u>(177,159)</u>	<u>(289,192)</u>
<b>Other revenues (expenses)</b>			
Interest, net	(116,977)	(116,299)	(124,621)
Other income	<u>675</u>	<u>2,553</u>	<u>-</u>
Total other revenues (expenses)	<u>(116,302)</u>	<u>(113,746)</u>	<u>(124,621)</u>
<b>Changes in net position before capital contributions</b>	(249,456)	(290,905)	(413,813)
<b>Depreciation on fixed assets acquired by contributed capital</b>	<u>24,216</u>	<u>24,216</u>	<u>24,216</u>
<b>Change in Net Position</b>	(225,240)	(266,689)	(389,597)
<b>Net Position, Beginning of Year</b>	<u>18,175,559</u>	<u>18,442,248</u>	<u>18,831,845</u>
<b>Net Position, End of Year</b>	<u>\$ 17,950,319</u>	<u>\$ 18,175,559</u>	<u>\$ 18,442,248</u>



**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015, 2014 AND 2013**

**Statement of Net Position**

The Statement of Net Position reports assets, and liabilities to obtain the District's net position. Net Position is calculated by using the following formula; assets– liabilities = net position.

The Suburban Improvement District's 2015 cash and cash equivalents decreased \$276,939 or 11.21%; however, during the same period, the District's certificates of deposits increased by \$130,214 or 9.98%. The District also increased its assets in the form of assessments receivable, accounts receivable, accrued interest receivable, pro shop inventory, and prepaid expenses. Due to the above mentioned factors, the District's current assets decreased by \$113,920 or 3.06% from the prior year. The net book value for the District's property, plant, and equipment decreased by \$388,372 or 1.87%. The decrease in assets and the loss of value for property, plant, and equipment contributed to the District's total assets and net position decreasing by \$502,292 or 2.02% from the prior year. The Suburban Improvement District reduced its current liabilities by \$35,028 or 7.78% while its long-term debt increased by \$217,808 or 4.46% from 2014.

**Statement of Revenue, Expenses, and Changes in Net Position**

The Statement of Revenue, Expenses, and Changes in Net Position outline the sources and uses of funds and report any changes in net position from operating activities.

The Suburban Improvement District's 2015 operating revenues exceeded its 2015 operating expenses. Revenues increased by \$110,442, or 3.06% compared to expenses increasing by \$34,245, or 1.24% from 2014. The District's net operating income (before depreciation) of \$925,955 increased by \$76,197 or 8.97% from the prior year. After applying a \$1,059,109 non-cash expense for depreciation, the District experienced a net operating loss of \$133,154. The end of year net position from operating activities decreased \$225,240 or 1.24% from 2014.

**Statement of Cash Flows**

The primary purpose of the Statement of Cash Flows is to provide information about cash receipts, cash payments, and the net change in cash resulting from the operating, investing, and financing activities.

The Suburban Improvement District's net cash from operating activities of \$850,580 increased \$164,567 or 23.99% from 2014. The Net Cash used for capital of \$1,013,450 is an increase of \$144,412 or 17.48% from 2014. The District converted \$114,069 from cash to a certificate of deposit. The above mentioned factors resulted in the District's Cash and Cash equivalents decreasing by \$276,939.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015, 2014 AND 2013**

**Economic Factors and Next Year's Budgets and Rates**

The Suburban Improvement District's Board of Commissioners and District Manager considered many factors when setting the fiscal-year 2016 budget; including, Assessment of Benefits and fees that will be charged for utilities and amenities.

**Assessments and User Fees for 2016**

- The board increased the Assessment of Benefits for all zones by 5% for 2016
- The board increased Marina slip rentals by 5% for 2016 and established a planned 5% annual rate increase effective through 2019
- The board increased golf activity cards by 5% for 2016 and established a planned 5% annual rate increase effective through 2019.
- The board established new charges for irrigation water meter connections for connections that occur anytime following initial construction.
- The board increased water meter connection charges for ¾" and 1" connections.
- The board increased the water turn-on fee by \$5.00.
- The board increased the monthly block rates for water service.
- The board increased the amenity fees for daily swim passes, annual individual, and family swim passes

The foremost financial concern for the District is with the declining number of residential and commercial lots in private hands. There are currently 5,174 residential and commercial lots within the Holiday Island boundaries, of which, 3,463 are in private ownership. During the 1980s and again in the 2000s, aggressive marketing of Holiday Island resulted in many individuals purchasing lots for the purposes of speculative investment, primary or vacation home building, or to obtain property owner access to recreational amenities. The properties in private hands provide the District with a substantial revenue source through the annual Assessment of Benefits. Beginning in the late 2000s, primarily the vacant and undeveloped lots started returning to the District through either quit claim or foreclosure on delinquent assessments. The trend of vacant and undeveloped lots falling out of private ownership is steady and will remain a significant financial concern until an efficient way of marketing and selling these lots back to private individuals is found.

**CONTACTING THE SUBURBAN IMPROVEMENT DISTRICT 'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our property owners, residents, customers, and creditors with a general overview of the Suburban Improvement District 's finances and to show the Suburban Improvement District 's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Suburban Improvement District's District Manager at (479) 253-9700.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,131,687	\$ 2,408,626
Certificates of deposit - designated	1,434,988	1,304,774
Assessments receivable, net	114,069	93,730
Accounts receivable	93,090	88,890
Accrued interest receivable	943	930
Inventory - pro shop	39,242	35,924
Prepaid expenses	<u>62,038</u>	<u>57,103</u>
 Total Current Assets	 <u>3,876,057</u>	 <u>3,989,977</u>
 <b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	 <u>60,960</u>	 <u>60,960</u>
 <b>PROPERTY, PLANT, AND EQUIPMENT, NET</b>	 <u>20,421,871</u>	 <u>20,810,243</u>
 Total Assets	 <u><u>\$ 24,358,888</u></u>	 <u><u>\$ 24,861,180</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 128,457	\$ 171,715
Current portion of long-term debt	<u>318,031</u>	<u>278,255</u>
 Total Current Liabilities	 <u>446,488</u>	 <u>449,970</u>
<b>LONG-TERM DEBT</b>		
Bonds payable	4,466,781	4,705,816
Note payable	38,159	-
Capital lease	<u>125,216</u>	<u>173,694</u>
 Total Long-Term Debt	 <u>4,630,156</u>	 <u>4,879,510</u>
<b>NET POSITION</b>		
Contributed capital, net	<u>1,331,925</u>	<u>1,356,141</u>
Retained earnings		
Reserved for debt service	1,086,024	1,026,922
Designated	1,434,988	1,304,774
Undesignated	<u>15,429,307</u>	<u>15,843,863</u>
	<u>17,950,319</u>	<u>18,175,559</u>
 Total Net Position	 <u>19,282,244</u>	 <u>19,531,700</u>
 Total Liabilities and Net Position	 <u><u>\$ 24,358,888</u></u>	 <u><u>\$ 24,861,180</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Assessments, net	\$ 1,679,413	\$ 1,663,300
Water and sewer	701,402	653,352
Fees, sales, and rental	646,119	626,976
Debt service assessments	431,741	430,744
Activity cards	102,625	103,463
Other	161,777	134,800
	<u>3,723,077</u>	<u>3,612,635</u>
<b>OPERATING EXPENSES</b>		
Water and sewer	701,600	631,184
Streets and roads	330,139	356,826
Fire and security protection	229,198	209,451
Recreation	120,192	136,988
18 hole golf course	283,883	326,754
9 hole golf course	59,843	69,141
Clubhouse, restaurant, marina and pro shop	411,444	390,407
General and administrative	660,823	642,126
	<u>2,797,122</u>	<u>2,762,877</u>
Net operating income before depreciation	925,955	849,758
Less: depreciation	<u>(1,059,109)</u>	<u>(1,026,917)</u>
Net operating (loss)	<u>(133,154)</u>	<u>(177,159)</u>
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>		
Gain on disposal of property and equipment	675	2,553
Interest income	16,158	16,431
Interest expense	<u>(133,135)</u>	<u>(132,730)</u>
Total other nonoperating (expenses)	<u>(116,302)</u>	<u>(113,746)</u>
Change in net position	(249,456)	(290,905)
Net position - beginning of year	18,175,559	18,442,248
Depreciation on fixed assets acquired by contributed capital	<u>24,216</u>	<u>24,216</u>
Net position - end of year	<u><u>\$ 17,950,319</u></u>	<u><u>\$ 18,175,559</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, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating (loss)	<u>\$ (133,154)</u>	<u>\$ (177,159)</u>
Adjustments to reconcile net operating (loss) to net cash from operating activities:		
Depreciation	1,059,109	1,026,917
In-kind contribution	-	(65,283)
Change in:		
Assessments receivable, net	(20,339)	27,044
Accounts receivable	(4,200)	(19,947)
Inventory - pro shop	(3,318)	9,822
Prepaid expenses	(4,935)	(4,610)
Accounts payable and accrued expenses	<u>(43,258)</u>	<u>(110,771)</u>
Total Adjustments	<u>983,059</u>	<u>863,172</u>
Net Cash From Operating Activities	<u>849,905</u>	<u>686,013</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on bond payable and note payable	(256,867)	(225,326)
Proceeds from note payable	95,000	-
Principal payments on capital lease	(46,659)	(27,210)
Proceeds from sale of property, plant, and equipment	675	2,553
Acquisition of property, plant, and equipment	(670,737)	(431,958)
Interest paid	<u>(134,187)</u>	<u>(144,449)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(1,012,775)</u>	<u>(826,390)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in certificates of deposit	(130,214)	(6,379)
Interest received	<u>16,145</u>	<u>20,567</u>
Net Cash From (Used For) Investing Activities	<u>(114,069)</u>	<u>14,188</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(276,939)</u>	<u>(126,189)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,469,586</u>	<u>2,595,775</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,192,647</u>	<u>\$ 2,469,586</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 2,131,687</u>	<u>\$ 2,408,626</u>
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>60,960</u>	<u>60,960</u>
	<u>\$ 2,192,647</u>	<u>\$ 2,469,586</u>

See Independent Auditors' Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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 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.

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, 2015 and 2014, the District had no cash equivalents.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

***Restricted Cash and Cash Equivalents***

Restricted cash consists of amounts held in a trust account for the purpose of debt service. At December 31, 2015 and 2014, the District had a restricted cash balance of \$60,960.

***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.

***Reclassification***

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

***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 \$6,662,570 and \$6,187,000 at December 31, 2015 and 2014, respectively. See Note 11 and Note 12 for more information regarding property, plant, and equipment.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

***Property, Plant, and Equipment - Continued***

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

***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.

***Current Accounting Developments***

In December 2015, the GASB issued Statement Number 78 (GASB 78), *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for fiscal years beginning after December 15, 2015. GASB 78 addresses a practice issue regarding the scope and applicability of GASB 68, *Accounting and Financial Reporting for Pensions*. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions.



**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

***Current Accounting Developments - Continued***

In March 2016, the GASB issued Statement Number 82 (GASB 82), Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73., effective for fiscal years beginning after June 15, 2016. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Management is currently evaluating the impact of implementation of these statements on the financial statements of the District.

***Assessments, Assessments Receivable, and Uncollectible Accounts***

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.

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 \$110,108 and \$65,108 as of December 31, 2015 and 2014, respectively.

***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.

***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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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, 2015 and 2014, the District received state assistance of \$20,361 and \$16,069, 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 Net Position.

**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.

**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 0.30% to 0.62% at December 31, 2015.

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, 2015 and 2014. At December 31, 2015, bank balances insured and collateralized with a letter of credit from the Federal Home Loan Bank of Dallas are \$250,000 and \$3,070,753, respectively. As of December 31, 2015, the District had approximately \$266,000 in uninsured deposits.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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 \$25,359 and \$29,687, respectively, during the years ended December 31, 2015 and 2014 on participant salaries of \$440,957 and \$515,514, respectively.

**NOTE 7: 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 that 45 percent of operating expenditures. It shall not be used to fund operating expenditures in the adopted budget. The balance at December 31, 2015 and 2014 was \$1,032,214 and \$1,029,326, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 34% and 35% at December 31, 2015 and 2014, 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, 2015 and 2014 was \$402,774 and \$275,448, respectively.

**NOTE 8: 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

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 8: BONDS PAYABLE – CONTINUED**

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>
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	258,303	68,468	39,125	365,896
2020	265,456	63,917	36,523	365,896
2021-2025	1,441,689	246,776	141,015	1,829,480
2026-2030	1,652,647	112,530	64,303	1,829,480
2031	352,770	4,716	2,694	360,180
	<u>\$ 4,704,763</u>	<u>\$ 727,909</u>	<u>\$ 415,948</u>	<u>\$ 5,848,620</u>

A summary of changes in bonds payable follows:

	December 31, 2014	Additions	Retirements	December 31, 2015	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 4,937,387</u>	<u>\$ -</u>	<u>\$ 232,624</u>	<u>\$ 4,704,763</u>	<u>\$ 237,982</u>
	December 31, 2013	Additions	Retirements	December 31, 2014	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 5,162,713</u>	<u>\$ -</u>	<u>\$ 225,326</u>	<u>\$ 4,937,387</u>	<u>\$ 231,571</u>

**NOTE 9: OPERATING LEASES**

The District leased golf carts under a noncancelable operating lease. The lease expired in 2014. Rental expense under this operating lease was \$27,108 for the year ended December 31, 2014. During the year ended December 31, 2015, the District entered into a new operating lease for golf carts. Rental expense under this operating lease was \$24,204.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 9: OPERATING LEASES – CONTINUED**

The following is a schedule of future minimum rental payments under the operating lease:

Years ended December 31,

2016	\$	24,204
2017		24,204
2018		24,204

**NOTE 10: NOTE PAYABLE**

During 2015, the District has entered into a note payable with Arvest Bank which is secured by equipment. The note bears interest at 2.98% with payments of \$2,768, including principal and interest, due monthly. The note matures February 2018. The note balance as of December 31, 2015 was \$69,705.

Annual principal payments for notes payable are as follows:

Years ended December 31,

2016	\$	31,546
2017		32,514
2018		<u>5,645</u>
	\$	<u><u>69,705</u></u>

**NOTE 11: CAPITAL LEASE**

During the year ended December 31, 2014, the District entered into leases for golf course maintenance equipment that are classified as capital leases. The cost of equipment under the capital leases is included as a component of the 18 hole golf course at a cost of \$264,919 with accumulated depreciation of \$37,529 as of December 31, 2015. Amortization of the assets under capital lease is included in depreciation expense. See Note 13.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2015, are as follows:

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 11: CAPITAL LEASE – CONTINUED**

Year ending December 31,

2016	\$ 54,335
2017	54,335
2018	54,335
2019	<u>22,638</u>
 Total minimum lease payments	 185,643
Less amount representing interest	<u>11,924</u>
 Present value of minimum lease payments	 <u>\$ 173,719</u>

**NOTE 12: NONCASH INVESTING AND FINANCING ACTIVITIES**

During the year ended December 31, 2014, the District acquired golf course maintenance equipment as follows:

Total cost of equipment	\$264,919
Use taxes paid	<u>(17,331)</u>
 Amount financed through capital lease	 <u>\$247,588</u>

During the year ended December 31, 2014, the District also received a contribution of materials to construct an addition to the fire department building amounting to \$65,283.

There were no non-cash activities investing or financing activities during the year ended December 31, 2015.

See Note 1 and Note 13 for more information regarding property and equipment.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 13: PROPERTY, PLANT, AND EQUIPMENT**

A summary of changed in property and equipment follows:

**YEAR ENDED DECEMBER 31, 2015**

	December 31, 2014	Additions	Disposals	December 31, 2015
9 hole golf course	\$ 1,165,917	\$ -	\$ -	\$ 1,165,917
18 hole golf course	1,343,547	-	-	1,343,547
19th hole restaurant	50,445	-	-	50,445
Buildings	4,180,378	-	-	4,180,378
Fire department equipment	1,010,650	4,250	-	1,014,900
Land	1,499,173	-	-	1,499,173
Public works	974,780	-	-	974,780
Recreational facilities	780,152	233,974	-	1,014,126
Resource management	89,007	-	-	89,007
Sewer system	18,190,167	16,013	-	18,206,180
Streets and roads	7,987,536	225,624	-	8,213,160
Water system	<u>7,376,704</u>	<u>190,876</u>	<u>-</u>	<u>7,567,580</u>
 Total	 44,648,456	 670,737	 -	 45,319,193
 Less:				
Accumulated depreciation	<u>(23,838,213)</u>	<u>(1,059,109)</u>	<u>-</u>	<u>(24,897,322)</u>
	 <u>\$ 20,810,243</u>	 <u>\$ (388,372)</u>	 <u>\$ -</u>	 <u>\$ 20,421,871</u>

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 13: PROPERTY, PLANT, AND EQUIPMENT - CONTINUED**

**YEAR ENDED DECEMBER 31, 2014**

	December 31, 2013	Additions	Disposals	December 31, 2014
9 hole golf course	\$ 1,165,917	\$ -	\$ -	\$ 1,165,917
18 hole golf course	1,078,628	264,919	-	1,343,547
19th hole restaurant	50,445	-	-	50,445
Buildings	4,115,093	65,285	-	4,180,378
Fire department equipment	1,010,650	-	-	1,010,650
Land	1,499,173	-	-	1,499,173
Public works	977,430	16,001	(18,651)	974,780
Recreational facilities	780,152	-	-	780,152
Resource management	81,917	7,090	-	89,007
Sewer system	18,060,718	129,449	-	18,190,167
Streets and roads	7,789,743	197,793	-	7,987,536
Water system	<u>7,312,412</u>	<u>64,292</u>	<u>-</u>	<u>7,376,704</u>
 Total	 43,922,278	 744,829	 (18,651)	 44,648,456
 Less:				
Accumulated depreciation	<u>(22,829,947)</u>	<u>(1,026,917)</u>	<u>18,651</u>	<u>(23,838,213)</u>
	 <u>\$ 21,092,331</u>	 <u>\$ (282,088)</u>	 <u>\$ -</u>	 <u>\$ 20,810,243</u>

**NOTE 14: 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, 2015 and 2014, the rate was 2.2% of gross receipts. The District paid approximately \$3,400 and \$1,800, respectively, under this lease during the years ended December 31, 2015 and 2014.

During the year ended December 31, 2015, the District began subleasing the marina on Table Rock Lake to KP's Dock Service, LLC. The lease expires December 31, 2019. Payments under the lease are as follows: \$1 per year for rent, plus KP's Dock Service can retain 37.5% of all boat slip rental payments collected up to \$85,000. The remaining amount is remitted to the District. During the year ended December 31, 2015, rental payments received by the District under sublease totaled approximately \$158,000 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, 2015 AND 2014**

**NOTE 14: MARINA LEASES - CONTINUED**

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 expired December 31, 2014. During the year ended December 31, 2014, rental payments received by the District under sublease totaled approximately \$146,000 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.

**NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Segment information for the years ended December 31, 2015 and 2014, is as follows:

	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 3,723,077	\$ 3,612,635
Operating expenses	2,797,122	2,762,877
Depreciation	1,059,109	1,026,917
Operating income (loss)	(133,154)	(177,159)
Nonoperating (expenses)	(116,302)	(113,746)
Net (loss)	(249,456)	(290,905)
Property, plant and equipment:		
Additions	670,737	744,829
Disposals	-	18,651
Total assets	24,358,888	24,861,180
Bonds and other long-term liabilities payable from operating revenues	4,948,187	5,157,765
Total liabilities	5,076,644	5,329,480
Total fund equity	19,282,244	19,531,700

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 15: RETIREMENT PLANS**

***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 defined benefit pension plan administered by the State of Arkansas. LOPFI provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The LOPFI Board of Trustees has no authority to establish and amend benefit provisions to LOPFI. LOPFI issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, 620 West Third Street, Suite 200, Little Rock, Arkansas 72201, by calling 1-501-682-1745, or online at [www.lopfi-prb.com](http://www.lopfi-prb.com).

***Funding Policy – Volunteer Firemen***

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 17.59% and 16.59% of annual covered payroll for the years ended December 31, 2015 and 2014, respectively. For the calendar year ended December 31, 2015, the District’s contribution rate is 18.59%. During the years ended December 31, 2015 and 2014, the District contributed \$5.40 per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. For the calendar year ended December 31, 2016, the District is required to contribute \$5.60 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.

***Net Pension Liability- Volunteer Firemen***

The District’s proportionate share of the total collective net pension liability attributable to volunteer firemen of the District was \$13,028 and \$12,947 at December 31, 2015 and 2014 (the actuarial valuation date and measurement date), respectively.

***Funding Policy – 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 2015 calendar year was computed to be 19.39% of active member payroll. The District’s applicable rate for 2015 is 17.59% 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.

***Net Pension Liability- Paid Firemen***

The District’s proportionate share of the total collective net pension liability attributable to paid firemen of the District was \$152,937 and \$197,164 at December 31, 2015 and 2014 (the actuarial valuation date and measurement date), respectively.



**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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 27, 2016.

**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.

*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.

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. Given these

limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.

### **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*

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

Rogers, Arkansas  
December 27, 2016

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION – WATER AND SEWER OPERATIONS ONLY  
YEAR ENDED DECEMBER 31, 2015**

**OPERATING REVENUES**

Charges for services \$ 701,402

**OPERATING EXPENSES**

Operations and maintenance 465,132

Salaries and related benefits and taxes 236,468

701,600

Net operating income (loss) before depreciation (198)

Less: depreciation (561,252)

**NET OPERATING INCOME (LOSS)** (561,450)

**INTEREST EXPENSE** (133,135)

**NET (LOSS)** (694,585)

**NET POSITION, BEGINNING OF YEAR** 7,500,811

**NET POSITION, END OF YEAR** \$ 6,806,226

**HOLIDAY ISLAND SUBURBANIMPROVEMENT DISTRICT #1  
MISCELLANEOUS SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2015**

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, 2015:

**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, 2015 averaged 1,728 per month.
3. Total gallons billed to water/sewer customers during the year ended December 31, 2015 amounted to 69,818,080.
4. Total dollars billed to water/sewer customers during the year ended December 31, 2015 amounted to \$1,133,143, which includes charges for service and debt assessments.
5. There is 236% 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, 2015, 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, 2015 was \$1,025,064. At December 31, 2015, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2015 was \$60,960.

**HOLIDAY ISLAND SUBURBANIMPROVEMENT DISTRICT #1  
MISCELLANEOUS SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2015**

8. A schedule of insurance policies in effect at December 31, 2015 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	\$20,386,289	5-10-16
Great American Insurance Group	Earthquake	\$5,000,000	5-10-16
Great American Insurance Group	Flood	\$5,000,000	5-10-16
Arkansas Municipal Vehicle Program	Vehicles Liability	\$25,000/\$30,000	8-24-16
	Physical Damage	\$1,497,098	8-24-16