HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
DECEMBER 31, 2016 AND 2015
CONTENTS

BEALL BARCLAY
Beall Barclay & Company, PLC

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, 2016 and 2015, 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, 2016 and 2015, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 10 and pension schedules on pages 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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 as listed in the Table of Contents 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 August 18, 2017, 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.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 18, 2017

Using This Annual Report

This annual report consists of 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, 2016.

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 are the principal concerns of the district manager and board of commissioners.

2016 was noteworthy for many changes in District staff, renewed attention to our infrastructure, and was seen by the Board as an opportunity to take a fresh look at the way we provide services. The District has a healthy mix of long-term employees who provide continuity and institutional history while in 2016 the District gained the ideas and energy of new employees at the department head and district manager level positions. Several departments were reorganized to now have fewer employees but with an emphasis on departmental cross-training and cooperation, operators having increased licenses and certificates and employees gaining new skills.

The District continues to invest back into Holiday Island through new amenities and capital improvements to our infrastructure. Thanks to many volunteers and the financial support of several community organizations, Holiday Island now has a community garden, hiking trails, and meaningful enhancements at the marina, campground, recreation center, and golf courses. The Water Department completed installing telemetry equipment on the water system. With the help of the new telemetry, the District will be in a better position to track, quantify and fix major leaks and other problems in the water system. Holiday Island also received a grant to purchase a flow meter which will help with water management and leak detection. The water treatment plant and polymer buildings were repaired and all the water storage tanks were inspected and are now on a ten-year maintenance plan starting with the Quail Run tank being rehabilitated and repainted in 2016. The remaining water storage tanks (except the hydopiller) are scheduled for rehabilitation and repainting in 2017. Holiday Island streets received over 3 miles of new asphalt or chip and seal road resurfacing, plus new striping along Woodsdale and Stateline Drive and striping at the marina parking lot and 18-hole golf cart crossings.

2016 presented several financial and managerial challenges for the District; including, act of God losses, equipment failures, and recovery from a 100 year flood, windstorms, and the unintentional release of gasoline affecting the Holiday Island Marina and Table Rock Lake. The District also suffered numerous equipment losses due to electrical surges and lightning. Natural disasters and equipment failures are unpredictable and can be costly; however, the District's preparation, appropriate responses to these events, and adequate insurance coverage mitigated much of the financial loss to the District. The District also responded proactively by implementing a surge and lightning loss prevention program by inspecting all public buildings, water wells, and other infrastructure for lightning vulnerabilities and making corrective actions to avoid future occurrences and financial losses.

Despite the unforeseen weather events and equipment failures, the District is financially stronger now than we were in prior years. This has much to do with the board adopting a balanced and realistic budget and every department actively looking for ways to increase revenues and cut costs while providing a greater quality of service. The Board of Commissioners made key financial decisions and took decisive actions to effectively cope with 2016's unexpected challenges and ended the year in a healthy position.

- The board increased all annual assessments by 5% in 2016. Examples of the 5% increase are: an improved R1 paved property's annual assessment increased $33.80 and an unimproved R1 paved property's annual assessment increased $20.80.
- Marina slip rentals have a planned 5% annual rate increase effective through 2019.
- Golf activity cards have a planned 5% annual rate increase effective through 2019.

Financial Highlights for Holiday Island Suburban Improvement District

- The Suburban Improvement District's current assets increased by $379,024 or 9.78% in 2016 while the District's total assets and deferred outflows of resources decreased by $151,332 or less than 1% from the prior year.

- The Suburban Improvement District reduced its total liabilities and deferred inflows of resources by $243,513 or 4.64% from 2015.

- The Suburban Improvement District's 2016 operating revenues exceeded its 2016 operating expenses and depreciation. Operating revenues increased by $288,649 or 7.75% while total operating expenses, including depreciation, decreased by $27,544, or 0.72% from 2015. The District experienced net operating income of $193,202 for 2016.

- The Suburban Improvement District's end of year net position increased by $116,397 or 0.65% from 2015.

- Assessment of Benefits 2016 net revenue increased by $75,522 or 4.50% compared to 2015.

- The Suburban Improvement District's net cash from operating activities increased by $452,938 or 53.94% compared to 2015.

- Water and Sewer 2016 operating revenues exceeded 2016 operating expenses by $198,027. Revenues increased by $91,935, or 13.11% while expenses decreased by $106,290 or 15.15% compared to 2015.

- 2016 operating expenses for streets and roads maintenance decreased by $27,380 or 8.29% compared to 2015.

- 2016 operating expenses for Law Enforcement, Fire, and Emergency Medical Services decreased by $11,448 or 4.99% compared to 2015.

- 2016 Recreational Activity Card revenue decreased by $7,880 or 7.68% compared to 2015.

- 2016 operating expenses for recreational activities and facilities, including: 18-hole and 9-hole golf courses, recreation center, clubhouse, restaurant, marina and pro shop increased by $106,862 or 12.21% compared to 2015.

- 2016 operating expenses for general administration decreased by $20,995 or 3.18% compared to 2015

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, 2016, 2015 AND 2014

Financial Highlights
Assets, Liabilities and Net Position

	2016	2015	2014
Assets			
Total current assets	$ 4,255,081	$ 3,876,057	$ 3,989,977
Restricted cash and investments	61,054	60,960	60,960
Other noncurrent assets	19,860,107	20,421,871	20,810,243
Total assets	$ 24,176,242	$ 24,358,888	$ 24,861,180
Deferred Outflows of Resources			
Pension Costs	$ 67,962	$ 36,648	$ -
Liabilities			
Total current liabilities	$ 470,703	$ 446,488	$ 449,970
Noncurrent liabililities	4,535,073	4,804,616	4,879,510
Total liabilities	$ 5,005,776	$ 5,251,104	$ 5,329,480
Deferred Inflows of Resources			
Pension Costs	$ 3,828	$ 2,013	$ -
Net Position			
Contributed capital, net	$ 1,307,709	$ 1,331,925	$ 1,356,141
Reserved for debt service	1,137,812	1,086,024	1,026,922
Designated	1,441,321	1,434,988	1,304,774
Undesignated	15,347,758	15,289,482	15,843,863
Total net position	$ 19,234,600	$ 19,142,419	$ 19,531,700

Operating Results and Changes in Net Position

	2016	2015	2014
Operating revenues	$ 4,011,726	$ 3,723,077	$ 3,612,635
Operating expenses			
Depreciation	1,080,653	1,059,109	1,026,917
Other operating expenses	2,737,871	2,797,122	2,762,877
Total operating expenses	3,818,524	3,856,231	3,789,794
Operating income	193,202	(133,154)	(177,159)
Other revenues (expenses)			
Interest, net	(110,227)	(116,977)	(116,299)
Other income	9,206	675	2,553
Total other revenues (expenses)	(101,021)	(116,302)	(113,746)
Change in Net Position	92,181	(249,456)	(290,905)
Net Position, Beginning of Year	19,142,419	19,531,700	19,822,605
Net Position, End of Year	$ 19,234,600	19,282,244	$ 19,531,700
Implementation of GASB 68		(139,825)	
Net Position, Restated		$ 19,142,419	

Statement of Net Position

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

The Suburban Improvement District's 2016 cash and cash equivalents increased $347,441 or 16.30% and the District's certificates of deposits increased by $6,333 or 0.44%. 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 increased by $379,024 or 9.78% from the prior year. The net book value for the District's property, wastewater treatment plant, and equipment decreased by $561,764 or 2.75%. The increase in assets, offset by the loss of value for property, wastewater treatment plant, and equipment contributed to the District's total assets and deferred outflows of resources to decrease by $151,332 or 0.62% from the prior year. The Suburban Improvement District's current liabilities increased by $24,215 or 5.42% while its long-term debt decreased by $269,543 or 5.61% from 2015.

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 2016 operating revenues exceeded its 2016 operating expenses and depreciation. Operating revenues increased by $288,649 or 7.75% while total operating expenses, including depreciation, decreased by $27,544, or 0.72% from 2015. The District experienced a net operating profit of $193,202 for 2016. The end of year net position from operating activities increased $116,397 or 0.65% from 2015.

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 $1,292,680 increased $442,775 or 52% from 2015. The Net Cash used for capital of $955,096 decreased by $57,679 or 5.70% from 2015. The above mentioned factors resulted in the District's Cash and Cash equivalents increasing by $347,441.

Economic Factors and Next Year's Budgets and Rates

The Suburban Improvement District's Board of Commissioners and District Manager consider many factors when setting the fiscal-year 2017 budget, including, Assessment of Benefits and fees that will be charged for utilities and amenities.

Assessments and User Fees for 2017

- The board increased the Assessment of Benefits for all zones by 5% for 2016
- The board increased Marina slip rentals by 5% for 2017 as part of a planned 5% annual rate increase effective through 2019
- The board increased golf activity cards by 5% for 2016 as part of a planned 5% annual rate increase effective through 2019.

The foremost financial concern for the District is with the declining number of residential and commercial lots in private hands. There are currently 5,204 residential and commercial lots within the Holiday Island boundaries, of which, 3,459 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 accomplished.

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, 2016 AND 2015

	2016	2015 (Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,479,128	$ 2,131,687
Certificates of deposit - designated	1,441,321	1,434,988
Assessments receivable, net	126,515	114,069
Accounts receivable	103,276	93,090
Accrued interest receivable	1,126	943
Inventory - pro shop	41,306	39,242
Prepaid expenses	62,409	62,038
Total Current Assets	4,255,081	3,876,057
RESTRICTED CASH AND CASH EQUIVALENTS	61,054	60,960
PROPERTY, PLANT, AND EQUIPMENT, NET	19,860,107	20,421,871
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	67,962	36,648
Total Assets and Deferred Outflows of Resources	$ 24,244,204	$ 24,395,536

See Independent Auditors' Report and Notes to Financial Statements.

	2016	2015 (Restated)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 143,219	$ 128,457
Current portion of long-term debt	327,484	318,031
Total Current Liabilities	470,703	446,488
LONG-TERM LIABILITIES		
Bonds payable	4,222,264	4,466,781
Note payable	5,788	38,159
Capital lease	73,932	125,216
Net pension liability	233,089	174,460
Total Long-Term Liabilities	4,535,073	4,804,616
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	3,828	2,013
Total Liabilities and Deferred Inflows of Resources	5,009,604	5,253,117
NET POSITION		
Contributed capital, net	1,307,709	1,331,925
Retained earnings		
Reserved for debt service	1,137,812	1,086,024
Designated	1,441,321	1,434,988
Undesignated	15,347,758	15,289,482
	17,926,891	17,810,494
Total Net Position	19,234,600	19,142,419
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 24,244,204	$ 24,395,536

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015 (Restated)
OPERATING REVENUES		
Assessments, net	$ 1,754,935	$ 1,679,413
Water and sewer	793,337	701,402
Fees, sales, and rental	737,340	646,119
Debt service assessments	426,148	431,741
Activity cards	94,745	102,625
Other	205,221	161,777
	4,011,726	3,723,077
OPERATING EXPENSES		
Water and sewer	595,310	701,600
Streets and roads	302,759	330,139
Fire and security protection	217,750	229,198
Recreation	133,317	120,192
18 hole golf course	284,370	283,883
9 hole golf course	52,201	59,843
Clubhouse, restaurant, marina and pro shop	512,336	411,444
General and administrative	639,828	660,823
	2,737,871	2,797,122
Net operating income before depreciation	1,273,855	925,955
Less: depreciation	(1,080,653)	(1,059,109)
Net operating income (loss)	193,202	(133,154)
OTHER NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of property and equipment	9,206	675
Interest income	16,467	16,158
Interest expense	(126,694)	(133,135)
Total other nonoperating (expenses)	(101,021)	(116,302)
Change in net position	92,181	(249,456)
Depreciation on fixed assets acquired by contributed capital	24,216	24,216
Net Position, December 31, 2014 as Previously Reported		18,175,559
Implementation of GASB 68		(139,825)
Net Postion, December 31, 2015, as Restated	17,810,494	$ 17,810,494
Net position - end of year	$ 17,926,891	

See Independent Auditors' Report and Notes to Financial Statements.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income (loss)	$ 193,202	$ (133,154)
Adjustments to reconcile net operating income (loss) to net cash from operating activities:		
Depreciation	1,080,653	1,059,109
Net change in pension liability	29,130	(10,163)
Change in:		
Assessments receivable, net	(12,446)	(20,339)
Accounts receivable	(10,186)	(4,200)
Inventory - pro shop	(2,064)	(3,318)
Prepaid expenses	(371)	(4,935)
Accounts payable and accrued expenses	14,762	(43,258)
Total Adjustments	1,099,478	972,896
Net Cash From Operating Activities	1,292,680	839,742
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bond payable and note payable	(269,330)	(256,867)
Proceeds from note payable	-	95,000
Principal payments on capital lease	(49,389)	(46,659)
Proceeds from sale of property, plant, and equipment	9,206	675
Acquisition of property, plant, and equipment	(518,889)	(670,737)
Interest paid	(126,694)	(134,187)
Net Cash (Used For) Capital and Related Financing Activities	(955,096)	(1,012,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in certificates of deposit	(6,333)	(130,214)
Interest received	16,284	16,145
Net Cash From (Used For) Investing Activities	9,951	(114,069)
NET CHANGE IN CASH AND CASH EQUIVALENTS	347,535	(287,102)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,182,484	2,469,586
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,530,019	$2,182,484
CASH AND CASH EQUIVALENTS	$ 2,479,128	$2,131,687
RESTRICTED CASH AND CASH EQUIVALENTS	61,054	60,960
	$ 2,540,182	$2,192,647

See Independent Auditors' Report and Notes to Financial Statements.

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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2016 and 2015, 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, 2016 and 2015, the District had restricted cash balances of $61,054 and $60,960, 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.

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 $7,072,000 and $6,663,000 at December 31, 2016 and 2015, respectively. See Note 11 and Note 12 for more information regarding property, plant, and equipment.

The estimated useful lives of assets are as follows:

ASSETS	**USEFUL LIVES IN YEARS**
9 hole golf course	7 - 50
18 hole golf course	5 - 50
19th 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 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 15th 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 $120,603 and $110,108 as of December 31, 2016 and 2015, 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, however, $100 deposits are required for opening new accounts. 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.

Implementation of GASB 68 – Prior Year Financial Statements Restated

During the year ended December 31, 2016, the District adopted GASB Statement Number 68 (GASB 68) which improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 states that for cost-sharing pension plans, a liability should be recognized for the employer’s proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer’s prior fiscal year, consistently applied from period to period. Accordingly, the effect of this change was to add $36,648 to deferred pension outflows, $174,460 to net pension liability, $2,013 to deferred pension inflows, $10,163 in pension expense and a $139,825 reduction of unrestricted net assets as of December 31, 2015.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. This amount was created as a result of the implementation of GASB 68. See Note 15 for additional information.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District has one item that qualifies for reporting in this category. This amount was created as a result of the implementation of GASB 68. See Note 15 for additional information.

Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Local Police and Fire Retirement System (“LOPFI”) and additions to or deductions from the LOPFI fiduciary net position have been determined on the same basis as they are reported by LOPFI. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: ASSESSMENTS

The District's Board of Commissioners approves the amount of the yearly assessment of property owners based on the category. This assessment, due October 15th, 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, 2016 and 2015, the District received state assistance of $14,991 and $20,361, 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 0.45% to 1.15% at December 31, 2016.

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, 2016 and 2015. At December 31, 2016, bank balances insured and collateralized with a letter of credit from the Federal Home Loan Bank of Dallas are $250,000 and $3,647,969, respectively. As of December 31, 2016, the District had approximately $73,000 in uninsured deposits.

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 $24,142 and $25,359, respectively, during the years ended December 31, 2016 and 2015 on participant salaries of $482,827 and $440,957, 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, 2016 and 2015 was $1,052,009 and $1,032,214, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 39% and 37% at December 31, 2016 and 2015, 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, 2016 and 2015 was $305,699 and $402,774, respectively. The District was in compliance with the requirements of the Equipment Reserve Fund as of December 31, 2016 and 2015.

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 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.

	Principal	Interest	Servicing Fee	Total
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	272,806	59,239	33,851	365,896
2022-2026	1,481,608	221,373	126,499	1,829,480
2027-2031	1,692,747	83,410	47,662	1,823,819
	$ 4,466,836	$ 646,509	$ 369,434	$ 5,482,779

A summary of changes in bonds payable follows:

	December 31, 2015	Additions	Retirements	December 31, 2016	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	$ 4,704,763	$ -	$ 237,927	$ 4,466,836	$ 244,572

	December 31, 2014	Additions	Retirements	December 31, 2015	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	$ 4,937,387	$ -	$ 232,624	$ 4,704,763	$ 231,571

NOTE 9: OPERATING LEASES

The District leases golf carts under a noncancelable operating lease. Rental expense under this operating lease was $24,204 for each of the years ended December 31, 2016 and 2015.

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

Years ended December 31,	
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, 2016 was $38,302.

Annual principal payments for notes payable are as follows:

Years ended December 31,	
2017	$ 32,514
2018	5,788
	$ 38,302

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 $64,022 and $37,529 as of December 31, 2016 and 2015, respectively. Amortization of the assets under capital lease is included in depreciation expense. See Note 12.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2016, are as follows:

Year ending December 31,	
2017	$ 54,335
2018	54,335
2019	21,777
Total minimum lease payments	130,447
Less amount representing interest	6,117
Present value of minimum lease payments	$ 124,330

NOTE 12: PROPERTY, PLANT, AND EQUIPMENT

A summary of changed in property and equipment follows:

YEAR ENDED DECEMBER 31, 2016

	December 31, 2015	Additions	Disposals	December 31, 2016
9 hole golf course	$ 1,165,917	$ -	$ (22,000)	$ 1,143,917
18 hole golf course	1,343,547	44,998	(77,759)	1,310,786
19th hole restaurant	50,445	-	-	50,445
Buildings	4,180,378	-	-	4,180,378
Fire department equipment	1,014,900	80,750	(9,551)	1,086,099
Land	1,499,173	-	-	1,499,173
Public works	974,780	12,075	(6,500)	980,355
Recreational facilities	1,014,126	14,340	-	1,028,466
Resource management	89,007	-	-	89,007
Sewer system	18,206,180	37,450	-	18,243,630
Streets and roads	8,213,160	201,071	-	8,414,231
Water system	7,567,580	128,205	-	7,695,785
Total	45,319,193	518,889	(115,810)	45,722,272
Less:				
Accumulated depreciation	(24,897,322)	(1,080,653)	115,810	(25,862,165)
	$ 20,421,871	$ (561,764)	$ -	$ 19,860,107

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	7,376,704	190,876	-	7,567,580
Total	44,648,456	670,737	-	45,319,193
Less:				
Accumulated depreciation	(23,838,213)	(1,059,109)	-	(24,897,322)
	$ 20,810,243	$ (388,372)	$ -	$ 20,421,871

NOTE 13: 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, 2016 and 2015, the rate was 2.2% of gross receipts. The District paid approximately $3,700 and $3,400, respectively, under this lease during the years ended December 31, 2016 and 2015.

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 years ended December 31, 2016 and 2015, rental payments received by the District under sublease totaled approximately $170,000 and $158,000 respectively, and are included in “Fees, sales, and rental” operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position, net of rental payments to the United States Secretary of the Army.

NOTE 14: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Operating revenues	$ 4,011,726	$ 3,723,077
Operating expenses	2,737,871	2,797,122
Depreciation	1,080,653	1,059,109
Operating income (loss)	193,202	(133,154)
Nonoperating (expenses)	(101,021)	(116,302)
Net income (loss)	$ 92,181	$ (249,456)
Property, plant and equipment:		
Additions	$ 518,889	$ 670,737
Disposals	115,810	-
Total assets and deferred outflows of resources	24,244,204	24,395,536
Bonds and other long-term liabilities payable from operating revenues	4,862,557	5,122,647
Total Liabilities and Deferred Inflows of Resources	5,009,604	5,253,117
Total net position	19,234,600	19,142,419

NOTE 15: RETIREMENT PLANS

Local Police and Fire Retirement System
Plan Description

The Arkansas Local Police and Fire Retirement System ("LOPFI") is a statewide cost-sharing multiple-employer defined benefit pension plan administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, 620 West Third Street, Suite 200, Little Rock, Arkansas 72201, by calling 1-501-682-1745, or online at www.lopfi-prb.com.

Paid Firemen

Benefits Provided

LOPFI provides for a retirement benefit paid to the Member on a monthly basis. The monthly benefit is based on a formula provided by law for the Member's lifetime. The Member has several options in calculating the benefit, which is normally the result of these factors: age at retirement, retirement multiplier, amount of credit services (years and months), and final average pay (FAP). Each option available to the member provides for a different calculation based on these factors.

Contributions

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. At the December 31, 2015 valuation and measurement date, there were 6 retired members covered by benefit terms and 2 active members.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

Net Pension Liability

The collective net pension liability of $524,774,500 was measured as of December 31, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the total collective net pension liability attributable to paid firemen of the District was $152,937 at December 31, 2016. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was based on the ratio of the District's actual contributions to the Plan during the measurement period to the total employer contributions to the Plan of the group for the measurement period.

For the years ended December 31, 2016 and 2015, the District recognized pension expense of $27,341 and $16,809, related to this plan, respectively. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources as of December 31, 2015, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,618	$ 60
Changes of assumptions	11,948	-
Changes in proportion and differences between employer contirbutions and proportionate share	988	-
Net difference between projected and actual earnings on pension plan investments	27,296	-
Contributions subsequent to measurement date	10,207	-
	$ 52,057	$ 60

Contributions made subsequent to the measurement date will be reversed in fiscal year ending December 31, 2017, and will not be amortized in the schedule below. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the District's financial statements as follows:

Years ended December 31,	
2016	$ (10,702)
2017	(10,702)
2018	(10,706)
2019	(9,680)
2020	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Method	18.8 years beginning January 1, 2017
Asset Valuation Method	5-year smoothed market; 20% corridor
Price Inflation	2.75%
Wage Inflation	3.75%
Salary Increases	4.25% to 18.75%, including inflation
Investment rate of return	7.75%

Retirement Age

Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2008-2011.

Mortality

RP-2000 Combined Healthy Mortality Table Projected to 2017 Table, set forward two years for men. Disability post-retirement mortality was assumed to be the same as standard post-retirement mortality set forward an additional 10 years.

General Note
There were no benefit changes during the year. The investment rate of return was decreased from 8.0% to 7.75% and the wage inflation assumption was decreased from 4.0% to 3.75%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of December 31, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of
Broad Domestic Equity	30%	2.97%	0.89%
International Equity	6%	1.50%	0.09%
Domestic Equity	33%	5.88%	1.94%
Foreign Equity	7%	6.25%	0.44%
Index	11%	6.73%	0.74%
Alternative Investments	10%	6.13%	0.61%
Cash	3%	-0.40%	-0.01%
Total	100%		4.70%
Expected Inflation			3.00%
Total Return			7.70%

Discount Rate
A single discount rate of 7.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

Sensitivity of Discount Rate

1% Lower 6.75%	Discount Rate 7.75%	1% Higher 8.75%
$ 240,659	$ 152,937	$ 79,459

Volunteer Firemen

Benefits Provided

LOPFI provides for a retirement benefit paid to the Member on a monthly basis. The monthly benefit is based on a formula provided by law for the Member's lifetime. The Member has several options in calculating the benefit, which is normally the result of these factors: age at retirement, retirement multiplier, amount of credit services (years and months), and final average pay (FAP). Each option available to the Member provides for a different calculation based on these factors. As of December 31, 2016, there was one member currently covered by the pension plan.

Contributions

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 18.59% and 17.59% of annual covered payroll for the years ended December 31, 2016 and 2015, respectively. For the calendar year ended December 31, 2016, the District's contribution rate is 19.59%. During the years ended December 31, 2016 and 2015, the District contributed $5.60 per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. For the calendar year ended December 31, 2017, 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. At the December 31, 2015 valuation and measurement date, there was one retired member covered by benefit terms and no active members.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

Net Pension Liability

The collective net pension liability of $36,771,841 was measured as of December 31, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the total collective net pension liability attributable to volunteer firemen of the District was $80,152 at December 31, 2016. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was based on the ratio of the District's actual contributions to the Plan during the measurement period to the total employer contributions to the Plan of the group for the measurement period.

For the years ended December 31, 2016 and 2015, the District recognized pension expense of $9,912 and $8,408 related to this plan, respectively. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources as of December 31, 2015, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,768
Changes of assumptions	2,909	-
Changes in proportion and differences between employer contirbutions and proportionate share	139	-
Net difference between projected and actual earnings on pension plan investments	7,949	-
Contributions subsequent to measurement date	4,908	-
	$ 15,905	$ 3,768

Contributions made subsequent to the measurement date will be reversed in fiscal year ending December 31, 2017, and will not be amortized in the schedule below. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the District's financial statements as follows:

Years ended December 31,		
2016	$	(1,597)
2017		(1,598)
2018		(2,232)
2019		(1,802)
2020		-
Thereafter		-

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Mehod	Closed Amortization Period based on projected benefit factors
Remaining Amortization Method	7 years beginning January 1, 2017
Asset Valuation Method	5-year smoothed market; 20% corridor
Price Inflation	2.75%
Wage Inflation	3.75%
Salary Increases	N/A
Investment rate of return	7.75%

Retirement Age

Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2008-2011.

Mortality

RP-2000 Combined Healthy Mortality Table Projected to 2017 Table set forward two years for men. Disability post-retirement mortality was assumed to be the same as standard post-retirement mortality set forward an additional 10 years.

General Note

There were no benefit changes during the year. The investment rate of return was decreased from 8.0% to 7.75% and the wage inflation assumption was decreased from 4.0% to 3.75% and the price inflation assumption was decreased from 3.0% to 2.75%.

The long-term expected rate of return on pension plan investments is 7.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the LOPFI Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of December 31, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of
Broad Domestic Equity	30%	2.97%	0.89%
International Equity	6%	1.50%	0.09%
Domestic Equity	33%	5.88%	1.94%
Foreign Equity	7%	6.25%	0.44%
Index	11%	6.73%	0.74%
Alternative Investments	10%	6.13%	0.61%
Cash	3%	-0.40%	-0.01%
Total	100%		4.70%
Expected Inflation			3.00%
Total Return			7.70%

Discount Rate

A single discount rate of 7.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.75%) or 1-percentage-point higher (8.75%) than the current rate:

Sensitivity of Discount Rate

1% Lower	Discount Rate	1% Higher
6.75%	7.75%	8.75%
$ 112,114	$ 80,152	$ 54,311

REQUIRED SUPPLEMENTARY INFORMATION

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PAID FIREMEN
DECEMBER 31, 2016 AND 2015

	2016	2015
Proportion of the net pension liability	0.03%	0.03%
Proportionate share of the net pension liability	$ 152,937	$ 104,018
Covered - employee payroll	86,800	102,140
Proportionate share of the net pension liability as percentage of covered-employee payroll	56.76%	98.19%
Plan's fiduciary net position	$ 152,937	$ 104,098
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled under the provision of GASB 68, the District will only present available information.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
SCHEDULES OF CONTRIBUTIONS – PAID FIREMEN
DECEMBER 31, 2016 AND 2015

	2016	2015
Contractually required contribution	$ 10,207	$ 17,051
Contributions in relation to the contractually required contribution	(10,207)	(17,051)
Contribution deficiency (excess)	-	-
Covered-employee payroll	$ 86,800	$ 102,140
Contributions as a percentage of covered-employee payroll	11.76%	16.69%

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled under the provision of GASB 68, the District will only present available information.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – VOLUNTEER FIREMEN
DECEMBER 31, 2016 AND 2015

	2016	2015
Proportion of the net pension liability	0.02%	0.02%
Proportionate share of the net pension liability	$ 80,152	$ 70,442
Covered - employee payroll	-	-
Proportionate share of the net pension liability as percentage of covered-employee payroll	N/A	N/A
Plan's fiduciary net position	$ 80,152	$ 70,442
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled under the provision of GASB 68, the District will only present available information.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
SCHEDULE OF CONTRIBUTIONS – VOLUNTEER FIREMEN
DECEMBER 31, 2016 AND 2015

	2016	2015
Contractually required contribution	$ 2,319	$ 2,335
Contributions in relation to the contractually required contribution	(2,319)	(2,335)
Contribution deficiency (excess)	-	-
Covered-employee payroll	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled under the provision of GASB 68, the District will only present available information.

Beall Barclay & Company, PLC

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 18, 2017.

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
August 18, 2017

SUPPLEMENTARY INFORMATION

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – WATER AND SEWER OPERATIONS ONLY
YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES		
Charges for services		$ 793,337
OPERATING EXPENSES		
Operations and maintenance	$ 365,072	
Salaries and related benefits and taxes	230,238	
		595,310
Net operating income (loss) before depreciation		198,027
Less: depreciation		(569,846)
NET OPERATING INCOME (LOSS)		(371,819)
INTEREST EXPENSE		(126,694)
NET (LOSS)		(498,513)
NET POSITION, BEGINNING OF YEAR		6,806,226
NET POSITION, END OF YEAR		$ 6,307,713

See Independent Auditors' Report.

HOLIDAY ISLAND SUBURBANIMPROVEMENT DISTRICT #1
MISCELLANEOUS SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

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, 2016:

Water Services:

Minimum charge for first 1,500 gallons	$	13.10
Rate for next 28,500 gallons, per 1,000 gallons		7.70
Rate for 30,001 gallons and above, per 1,000 gallons		3.85

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, 2016 averaged 1,730 per month.

3. Total gallons billed to water/sewer customers during the year ended December 31, 2016 amounted to 70,047,130.

4. Total dollars billed to water/sewer customers during the year ended December 31, 2016 amounted to $1,218,317, 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, 2016, 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, 2016 was $1,076,758. At December 31, 2016, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2016 was $61,054.

8. A schedule of insurance policies in effect at December 31, 2016 is as follows:

Insurance Company	Type of Coverage	Amount of Coverage	Expiration Date
Great American Insurance Group	Commercial Property, Equipment and Other	$20,890,057	5-10-17
Great American Insurance Group	Earthquake	$5,000,000	5-10-17
Great American Insurance Group	Flood	$5,000,000	5-10-17
Arkansas Municipal Vehicle Program	Vehicles		
	Liability	$25,000/$30,000	8-24-17
	Physical Damage	$1,560,598	8-24-17
Travelers	General Liability	$1,000,000	5-10-17
Travelers	Employee Benefit, Employee Practices	$2,000,000	5-10-17
Travelers	Public Entity Management	$1,000,000	5-10-17
Travelers	Crime	$100,000	5-10-17
QBE Insurance	Volunteer Accident	$100,000	5-10-17