

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**HOLIDAY ISLAND SUBURBAN  
IMPROVEMENT DISTRICT #1  
DECEMBER 31, 2018 AND 2017  
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## INDEPENDENT AUDITOR'S 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 **Holiday Island Suburban Improvement District #1** (the District) as of and for the years ended December 31, 2018 and 2017, 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.

### ***Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as December 31, 2018 and 2017, and the changes in financial 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 31 through 32 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 an opinion 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 October 31, 2019, 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.

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Rogers, Arkansas  
October 31, 2019

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

**Using This Annual Report**

This annual report consists of management's discussion and analysis (this section), and basic financial statements including notes to the financial statements. The basic financial statements are comprised of a series of financial statements: Statements of Net Position, Statements of Revenue, Expenses, and Changes in Net Position, and the Statements 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 (the "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 District provides an overview of the its financial activities for the year ending December 31, 2018.

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's 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 concern of the District Manager and Board of Commissioners.

The District continues to invest back into Holiday Island through replacing vital equipment, developing new amenities and prioritizing capital improvements to renew roads and sanitation infrastructure. The commissioners and staff come together each year to decide on what the District wants to achieve and how to prioritize the work within our limited, yet balanced budget. As with all communities, unforeseen circumstances sometimes force us to adapt and change our plans. An example is, last year the District had to completely change its 2018 road resurfacing plan to meet the unexpected challenges of a landslide and to address another severely distressed area along Stateline Drive. Another incident was a strong wind storm that damaged the Recreation Center, Fire Station 3, and two other smaller buildings that required roof replacements. The good news is, with any misfortune comes an opportunity to respond and become

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

better and stronger than before. Nearly all the roofs on the District's major public buildings have now been replaced and Stateline Drive is stable. These mishaps also created an opportunity to apply for some much-needed grant funding to continue fortifying the previous landslide area and to address the ongoing problem with eroding ditches along Stateline Drive. This work will be carried out in 2019.

In 2018, over \$700,000 worth of Capital Improvement Projects for infrastructure and buildings were completed and \$90,000 in capital equipment was purchased. The improvements were too numerous to list here; but to give a few examples:

- The Administration Department invested in a District-wide VoIP Phone System that will provide hundreds of dollars' worth of savings each month.
- The Road Department acquired new snow and ice removal equipment, including replacing an old snow plow truck and spreader. The Road Department also leveled and paved a large section of Stateline Drive, repaired the Stateline Drive landslide, resurfaced Park Lane, seal coated and striped several parking lots, and installed new LED streetlights at Holiday Island's main entrance and the Marina parking lot.
- The Water/Wastewater Department is near completion on its Lift Station Rehabilitation Project, continuing its maintenance program on the water tanks, and working towards replacement of 37 water system pressure reducing valves.
- Recreational infrastructure received some needed work. The Marina got some security upgrades, LED lighting, and an entirely new fuel system from the tanks to two new pumps on the docks. The 18-hole course had the worst portions of the golf cart paths overlaid with asphalt. The Recreation Center received LED parking lot lights, remodeled locker rooms, and received a new roof.

Despite the unforeseen weather events and change in plans, the District is financially stronger now than we were in prior years. For the third year in a row, the District has realized a net profit; 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 2018's unexpected challenges and ended the year in a healthy position.

- The Board increased all annual assessments in 2018. Examples of the increase are: an improved R1 paved property's annual assessment increased \$51.46 and an unimproved R1 paved property's annual assessment increased \$31.16.
- 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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

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

- Total current assets increased by \$202,559 or 4.51% in 2018.
- Current year operating revenues exceeded current year operating expenses and depreciation. Operating revenues increased by \$20,917 while total operating expenses increased by \$49,956 from 2017. The District experienced net operating income of \$138,337 for 2018.
- The Suburban Improvement District's end of year net position increased by \$86,458 or 0.48% from 2017.
- Assessment of Benefits 2018 net revenue increased by \$88,108 or 4.98% compared to 2017.
- The Suburban Improvement District's net cash from operating activities increased by \$70,123 or 5.57% compared to 2017.
- Water and Sewer 2018 operating revenues exceeded 2018 operating expenses by \$297,121. 2018 revenues increased by \$15,541, while expenses decreased by \$76,001 compared to 2017.
- 2018 operating expenses for streets and roads maintenance decreased by \$14,552 compared to 2017.
- 2018 operating expenses for Fire and Security increased by \$14,815 or 5.81% compared to 2017.
- Recreational Activity Card revenue increased by \$520 or 0.58% compared to 2017.
- 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 \$560 compared to 2017.
- Operating expenses for general administration increased by \$125,754 or 17.01% compared to 2017



**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018, 2017 AND 2016**

**Financial Highlights**

**Assets, Liabilities and Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Total current assets	\$ 4,694,635	\$ 4,492,076	\$ 4,255,081
Restricted cash and investments	60,715	60,843	61,054
Other noncurrent assets	<u>19,008,215</u>	<u>19,383,461</u>	<u>19,860,107</u>
Total Assets	<u>\$ 23,763,565</u>	<u>\$ 23,936,380</u>	<u>\$ 24,176,242</u>
<b>Deferred Outflows of Resources</b>			
Pension costs	<u>\$ 150,362</u>	<u>\$ 70,965</u>	<u>\$ 67,962</u>
<b>Liabilities</b>			
Total current liabilities	\$ 445,805	\$ 420,779	\$ 470,703
Noncurrent liabilities	<u>4,006,270</u>	<u>4,214,514</u>	<u>4,535,073</u>
Total Liabilities	<u>\$ 4,452,075</u>	<u>\$ 4,635,293</u>	<u>\$ 5,005,776</u>
<b>Deferred Inflows of Resources</b>			
Pension Costs	<u>\$ 48,050</u>	<u>\$ 20,492</u>	<u>\$ 3,828</u>
<b>Net Position</b>			
Contributed capital, net	\$ 1,259,277	\$ 1,283,493	\$ 1,307,709
Reserved for debt service	1,228,073	1,181,580	1,137,812
Designated	1,345,835	1,400,851	1,357,708
Undesignated	<u>15,580,617</u>	<u>15,485,636</u>	<u>15,431,371</u>
Total Net Position	<u>\$ 19,413,802</u>	<u>\$ 19,351,560</u>	<u>\$ 19,234,600</u>
<b>Operating Results and Changes in Net Position</b>			
<b>Operating Revenues</b>	<u>\$ 4,303,322</u>	<u>\$ 4,282,405</u>	<u>\$ 4,011,726</u>
<b>Operating Expenses</b>			
Depreciation	1,164,574	1,123,720	1,080,653
Other operating expenses	<u>3,000,411</u>	<u>2,950,455</u>	<u>2,737,871</u>
Total Operating Expenses	<u>4,164,985</u>	<u>4,074,175</u>	<u>3,818,524</u>
<b>Operating Income</b>	<u>138,337</u>	<u>208,230</u>	<u>193,202</u>
<b>Other Revenues (Expenses)</b>			
Interest, net	(76,095)	(97,174)	(110,227)
Other income	<u>-</u>	<u>5,904</u>	<u>9,206</u>
Total Other Revenues (Expenses)	<u>(76,095)</u>	<u>(91,270)</u>	<u>(101,021)</u>
<b>Change in Net Position</b>	<u>62,242</u>	<u>116,960</u>	<u>92,181</u>
<b>Net Position, Beginning of Year</b>	<u>19,351,560</u>	<u>19,234,600</u>	<u>19,142,419</u>
<b>Net Position, End of Year</b>	<u>\$ 19,413,802</u>	<u>\$ 19,351,560</u>	<u>\$ 19,234,600</u>

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

**Statements of Net Position**

The Statements 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 cash and cash equivalents increased \$155,343 or 5.87% and the District's certificates of deposits increased by \$14,281 or 0.98% for the year ended December 31, 2018. The District also increased its assets in the form of assessments receivable, accounts receivable, accrued interest receivable, and pro shop inventory. Due to the factors mentioned above, the District's current assets increased by \$202,559 or 4.51% from the prior year. The net book value for the District's property, wastewater treatment plant, and equipment decreased by \$375,246 or 1.94%. 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 \$93,418 or 0.39% from the prior year.

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

The Statements 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 operating revenues exceeded its 2018 operating expenses and depreciation for the year ended December 31, 2018. Operating revenues increased by \$20,917 or 0.49% while total operating expenses increased by 49,956, or 1.69% from 2017. The District experienced a net operating income of \$138,337 for 2018.

**Statements of Cash Flows**

The primary purpose of the Statements 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 \$1,329,458 increased \$70,123 or 5.57% from 2017. The net cash used for capital and related financing activities of \$1,194,222 increased by \$90,624 or 8.21% from 2017. The factors mentioned above resulted in the District's Cash and Cash equivalents increasing by \$155,215 or 5.73%.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018, 2017 AND 2016**

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

The District's Board of Commissioners and District Manager considered many factors when setting the fiscal year 2019 budget, including, Assessment of Benefits and fees that will be charged for utilities and amenities.

**Assessments and User Fees for 2019**

- The Board increased the Assessment of Benefits for all zones for 2019
- The Board increased Marina slip rentals by 5% for 2019 as part of a planned 5% annual rate increase effective through 2019
- The Board increased golf activity cards by 5% for 2019 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 5,141 residential and commercial lots within the Holiday Island boundaries, of which, 3,533 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 District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's District Manager at (479) 253-9700.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,801,563	\$ 2,646,220
Certificates of deposit	120,976	51,679
Certificates of deposit - designated	1,345,835	1,400,851
Assessments receivable, net	211,463	187,740
Accounts receivable	102,491	98,707
Accrued interest receivable	3,680	1,583
Inventory - pro shop	51,506	45,911
Prepaid expenses	<u>57,121</u>	<u>59,385</u>
 Total Current Assets	 <u>4,694,635</u>	 <u>4,492,076</u>
 <b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	 <u>60,715</u>	 <u>60,843</u>
 <b>PROPERTY, PLANT, AND EQUIPMENT, NET</b>	 <u>19,008,215</u>	 <u>19,383,461</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	<u>150,362</u>	<u>70,965</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 23,913,927</u></u>	 <u><u>\$ 24,007,345</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

2018

2017

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION****CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 163,943	\$ 130,297
Current portion of bonds payable	258,303	251,344
Current portion of capital lease	<u>23,559</u>	<u>39,138</u>
Total Current Liabilities	<u>445,805</u>	<u>420,779</u>

**LONG-TERM LIABILITIES**

Bonds payable	3,714,431	3,972,177
Capital lease	-	24,365
Net pension liability	<u>291,839</u>	<u>217,972</u>
Total Long-Term Liabilities	<u>4,006,270</u>	<u>4,214,514</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred pension inflows	<u>48,050</u>	<u>20,492</u>
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Total Liabilities and Deferred Inflows of Resources	<u>4,500,125</u>	<u>4,655,785</u>
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**NET POSITION**

Contributed capital, net	<u>1,259,277</u>	<u>1,283,493</u>
Retained earnings		
Reserved for debt service	1,228,073	1,181,580
Designated	1,345,835	1,400,851
Undesignated	<u>15,580,617</u>	<u>15,485,636</u>
	<u>18,154,525</u>	<u>18,068,067</u>

Total Net Position	<u>19,413,802</u>	<u>19,351,560</u>
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Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 23,913,927</u>	<u>\$ 24,007,345</u>
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See Independent Auditor's 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, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUES</b>		
Assessments, net	\$ 1,857,453	\$ 1,769,345
Water and sewer	839,014	823,473
Fees, sales, and rental	802,754	808,752
Debt service assessments	417,978	415,718
Activity cards	90,129	89,609
Other	295,994	375,508
	<u>4,303,322</u>	<u>4,282,405</u>
<b>OPERATING EXPENSES</b>		
Water and sewer	541,893	617,894
Streets and roads	285,718	300,270
Fire and security protection	269,671	254,856
Recreation	114,816	113,327
18 hole golf course	386,520	354,177
9 hole golf course	-	15,995
Clubhouse, restaurant, marina and pro shop	536,931	554,828
General and administrative	864,862	739,108
	<u>3,000,411</u>	<u>2,950,455</u>
Net operating income before depreciation	1,302,911	1,331,950
Less: depreciation	1,164,574	1,123,720
Net operating income	<u>138,337</u>	<u>208,230</u>
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>		
Gain on disposal of property and equipment	-	5,904
Interest income	36,357	22,810
Interest expense	(112,452)	(119,984)
Total other nonoperating (expenses)	<u>(76,095)</u>	<u>(91,270)</u>
Change in net position	62,242	116,960
Depreciation on fixed assets acquired by contributed capital	24,216	24,216
Net position - beginning of year	<u>18,068,067</u>	<u>17,926,891</u>
Net position - end of year	<u>\$ 18,154,525</u>	<u>\$ 18,068,067</u>

See Independent Auditor's Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers for:		
Assessments	\$ 1,835,765	\$ 1,710,654
Water and sewer	835,230	828,042
Fees, sales, and rental	802,754	808,752
Debt service assessments	415,943	413,184
Activity cards and other revenue	386,123	465,117
Payments for:		
Water and sewer	(539,571)	(621,748)
Streets and roads	(283,366)	(302,847)
Fire and security protection	(266,191)	(254,992)
Recreation	(113,547)	(115,296)
18 hole golf course	(381,041)	(353,411)
9 hole golf course	(706)	(18,020)
Clubhouse, restaurant, marina and pro shop	(532,095)	(557,126)
General and administrative	(829,840)	(742,974)
	<u>1,329,458</u>	<u>1,259,335</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on bond payable and note payable	(250,787)	(281,617)
Principal payments on capital lease	(39,944)	(60,827)
Proceeds from sale of property, plant, and equipment	-	5,904
Acquisition of property, plant, and equipment	(789,328)	(647,074)
Interest paid	(114,163)	(119,984)
	<u>(1,194,222)</u>	<u>(1,103,598)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in certificates of deposit	(14,281)	(11,209)
Interest received	34,260	22,353
	<u>19,979</u>	<u>11,144</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>155,215</b>	<b>166,881</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,707,063</b>	<b>2,540,182</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,862,278</b>	<b>\$ 2,707,063</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 2,801,563</b>	<b>\$ 2,646,220</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>60,715</b>	<b>60,843</b>
	<u>\$ 2,862,278</u>	<u>\$ 2,707,063</u>

See Independent Auditor's Report and Notes to Financial Statements.



	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating income	<u>\$ 138,337</u>	<u>\$ 208,230</u>
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	1,164,574	1,123,720
Net change in pension liability	22,028	(1,456)
Change in:		
Assessments receivable, net	(23,723)	(61,225)
Accounts receivable	(3,784)	4,569
Inventory - pro shop	(5,595)	(4,605)
Prepaid expenses	2,264	3,024
Accounts payable and accrued expenses	<u>35,357</u>	<u>(12,922)</u>
Total Adjustments	<u>1,191,121</u>	<u>1,051,105</u>
Net Cash From Operating Activities	<u><u>\$ 1,329,458</u></u>	<u><u>\$ 1,259,335</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**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 Governmental Accounting Standards Board (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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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***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, 2018 and 2017, 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, 2018 and 2017, the District had restricted cash balances of \$60,715 and \$60,843, 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 net realizable value, on a first in, first out basis. Merchandise held for sale primarily consists of golf-related items.

***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 \$7,630,000 and \$7,286,000 at December 31, 2018 and 2017, respectively. See Notes 10 and 11 for more information regarding property, plant, and equipment.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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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.

***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 \$113,865 and \$101,091 as of December 31, 2018 and 2017, respectively.

***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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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***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 14 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 14 for additional information.

***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.

***Long-Lived Assets***

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

***Subsequent Events***

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

**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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**NOTE 3: STATE ASSISTANCE**

During the years ended December 31, 2018 and 2017, the District received state assistance of \$17,807 and \$15,541, 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.

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, 2018 and 2017. At December 31, 2018, bank balances insured and collateralized with a letter of credit from the Federal Home Loan Bank of Dallas are \$500,000 and \$3,930,597, respectively. At December 31, 2018, there were no 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 \$32,719 and \$31,678, respectively, during the years ended December 31, 2018 and 2017 on participant salaries of \$663,823 and \$638,716, respectively.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**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 than 45 percent of operating expenditures. It shall not be used to fund operating expenditures in the adopted budget. The balance at December 31, 2018 and 2017 was \$1,123,774 and \$1,095,152, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 36% and 37% at December 31, 2018 and 2017, 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, 2018 and 2017 was \$222,061 and \$305,699, respectively. The District was in compliance with the requirements of the Equipment Reserve Fund as of December 31, 2018 and 2017.

**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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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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>
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	280,360	54,432	31,104	365,896
2023	288,123	49,492	28,281	365,896
2024-2028	1,564,792	168,438	96,250	1,829,480
2029-2031	1,042,894	32,421	18,526	1,093,841
	<u>\$ 3,972,734</u>	<u>\$ 496,407</u>	<u>\$ 283,660</u>	<u>\$ 4,752,801</u>

A summary of changes in bonds payable follows:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 4,223,521</u>	<u>\$ -</u>	<u>\$250,787</u>	<u>\$ 3,972,734</u>	<u>\$ 258,303</u>
	December 31, 2016	Additions	Retirements	December 31, 2017	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 4,466,836</u>	<u>\$ -</u>	<u>\$243,315</u>	<u>\$ 4,223,521</u>	<u>\$ 251,344</u>

**NOTE 9: OPERATING LEASES**

The District leases golf carts under a noncancelable operating lease. Rental expense under this operating lease was \$ \$25,632 and \$24,204, respectively, for the years ended December 31, 2018 and 2017. The lease was renewed through May 2022 during the year ended December 31, 2018. Minimum annual lease payments in the amount of \$24,204 are due in each of the years 2019 through 2022.

**NOTE 10: 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 \$169,988 and \$119,951 as of December 31, 2018 and 2017, respectively. Amortization of the assets under capital lease is included in depreciation expense. See Note 11.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2018, are as follows:



**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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<u>Year ending December 31,</u>	
2019	<u>\$ 23,776</u>
Total minimum lease payments	23,776
Less amount representing interest	<u>217</u>
Present value of minimum lease payments	<u>\$ 23,559</u>

**NOTE 11: PROPERTY, PLANT, AND EQUIPMENT**

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

**YEAR ENDED DECEMBER 31, 2018**

	December 31, 2017	Additions	Disposals	December 31, 2018
9 hole golf course	\$ 1,143,917	\$ -	\$ -	\$ 1,143,917
18 hole golf course	1,317,866	73,840	-	1,391,706
19th hole restaurant	67,977	-	-	67,977
Buildings	4,180,378	86,672	-	4,267,050
Fire department equipment	1,167,999	-	-	1,167,999
Land	1,499,173	-	-	1,499,173
Public works	992,407	49,417	-	1,041,824
Recreational facilities	1,054,558	118,652	-	1,173,210
Resource management	89,007	-	-	89,007
Sewer system	18,285,850	18,367	-	18,304,217
Streets and roads	8,653,121	259,872	-	8,912,993
Water system	7,832,093	167,101	-	7,999,194
Construction in progress	<u>-</u>	<u>15,407</u>	<u>-</u>	<u>15,407</u>
Total	46,284,346	789,328	-	47,073,674
Less:				
Accumulated depreciation	<u>(26,900,885)</u>	<u>(1,164,574)</u>	<u>-</u>	<u>(28,065,459)</u>
	<u>\$ 19,383,461</u>	<u>\$ (375,246)</u>	<u>\$ -</u>	<u>\$ 19,008,215</u>

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**YEAR ENDED DECEMBER 31, 2017**

	December 31, 2016	Additions	Disposals	December 31, 2017
9 hole golf course	\$ 1,143,917	\$ -	\$ -	\$ 1,143,917
18 hole golf course	1,310,786	7,080	-	1,317,866
19th hole restaurant	50,445	17,532	-	67,977
Buildings	4,180,378	-	-	4,180,378
Fire department equipment	1,086,099	166,900	85,000	1,167,999
Land	1,499,173	-	-	1,499,173
Public works	980,355	12,052	-	992,407
Recreational facilities	1,028,466	26,092	-	1,054,558
Resource management	89,007	-	-	89,007
Sewer system	18,243,630	42,220	-	18,285,850
Streets and roads	8,414,231	238,890	-	8,653,121
Water system	<u>7,695,785</u>	<u>136,308</u>	<u>-</u>	<u>7,832,093</u>
 Total	 45,722,272	 647,074	 85,000	 46,284,346
Less:				
Accumulated depreciation	<u>(25,862,165)</u>	<u>(1,123,720)</u>	<u>85,000</u>	<u>(26,900,885)</u>
	 <u>\$ 19,860,107</u>	 <u>\$ (476,646)</u>	 <u>\$ -</u>	 <u>\$ 19,383,461</u>

**NOTE 12: 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, 2018 and 2017, the rate was 2.2% of gross receipts. The District paid approximately \$3,800 under this lease during each of the years ended December 31, 2018 and 2017.

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, 2018 and 2017, rental payments received by the District under this sublease totaled approximately \$173,000 and \$170,000, 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.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Segment information for the years ended December 31, 2018 and 2017, is as follows:

	<b>2018</b>	<b>2017</b>
Operating revenues	\$ 4,303,322	\$ 4,282,405
Operating expenses	3,000,411	2,950,455
Depreciation	(1,164,574)	(1,123,720)
Operating income	2,467,485	2,455,670
Nonoperating (expenses), net	(76,095)	(91,270)
Change in net position	2,391,390	2,364,400
Property, plant and equipment:		
Additions	789,328	647,074
Disposals	-	(85,000)
Total assets and deferred outflows of resources	23,913,927	24,007,345
Bonds and other long-term liabilities payable from operating revenues	4,288,132	4,504,996
Total liabilities and deferred inflows of resources	4,500,125	4,655,785
Total net position	19,413,802	19,351,560

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**NOTE 14: 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 for both paid and volunteer firemen. LOPFI was created by Act 364 of the 1981 General Assembly. The District has LOPFI plans for both paid firemen and volunteer firemen. 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](http://www.lopfi-prb.com).

***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 2017 calendar year was computed to be 22.44% of active member payroll. The District’s applicable rate for 2017 is 21.59% 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, 2017 valuation and measurement date for paid firemen, there were 4 retired members covered by benefit terms and 4 active members. During the years ended December 31, 2018 and 2017, the District contributed \$5.60 per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. At the December 31, 2017 valuation and measurement date for volunteer firemen, there was 1 retired member covered by benefit terms and 0 active members.

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions**

***Net Pension Liability***

The collective net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. The net pension liability was measured as of December 31, 2017, 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. As of December 31, 2018 and 2017, the District reported net pension liability for their proportionate share of the net pension liability of each plan as follows:

	<b>2018</b>	<b>2017</b>
Paid fire	\$ 205,485	\$ 137,235
Volunteer fire	<u>86,354</u>	<u>80,737</u>
	<u><u>\$ 291,839</u></u>	<u><u>\$ 217,972</u></u>

For the years ended December 31, 2018 and 2017, the District recognized pension expense of \$61,352 and \$38,774, related to this plan, respectively. At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources as of December 31, 2017 and 2016 (valuation dates), related to pensions from the following sources:

<b>2018</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 10,287	\$ 2,687
Changes of assumptions	69,036	-
Changes in proportion and differences between employer contributions and proportionate share	21,867	15,836
Net difference between projected and actual earnings on pension plan investments	23,084	29,527
Contributions subsequent to measurement date	<u>26,088</u>	<u>-</u>
	<u><u>\$ 150,362</u></u>	<u><u>\$ 48,050</u></u>

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,781	\$ 4,346
Changes of assumptions	9,601	-
Changes in proportion and differences between employer contributions and proportionate share	9,240	16,146
Net difference between projected and actual earnings on pension plan investments	30,200	-
Contributions subsequent to measurement date	<u>17,143</u>	<u>-</u>
	<u><u>\$ 70,965</u></u>	<u><u>\$ 20,492</u></u>

Contributions made subsequent to the measurement date will be reversed in fiscal year ending December 31, 2019, 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,**

	<b>Paid Firemen</b>	<b>Volunteer Fire</b>	<b>Total</b>
2018	\$ 23,521	\$ 7,370	\$ 30,891
2019	22,504	6,460	28,964
2020	14,256	1,326	15,582
2021	2,523	(1,736)	787
2022	-	-	-
Thereafter	-	-	-

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
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**Actuarial Assumptions**

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Paid Service Assumptions**

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Wage Inflation	3.25%
Price Inflation	2.50%
Salary Increases	4.50% to 19.00%, including inflation
Investment rate of return	7.00%
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-year smoothed market; 20% corridor

**Volunteer Service Assumptions**

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Inflation	2.50%
Investment rate of return	7.00%
Actuarial Cost Method: 5	Entry Age Normal
Asset Valuation Method	5-year smoothed market; 20% corridor

**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**

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, 2017, these best estimates are summarized in the following table:

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Allocation-Weighted Long-Term Expected Real Rate of Return</u>
Fixed Income	27%	0.77%	0.21%
Domestic Equity	42%	5.58%	2.34%
Foreign Equity	18%	7.38%	1.33%
Alternative Investments	10%	6.23%	0.62%
Cash	3%	0.00%	0.00%
<b>Total</b>	<u>100%</u>		<u>4.50%</u>
Expected Inflation			<u>2.50%</u>
<b>Total Return</b>			<u>7.00%</u>

**Discount Rate**

A single discount rate of 7.00% 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 7.00%. 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 7.00%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

**Sensitivity of Discount Rate**

	<u>1% Lower 6.00%</u>	<u>Discount Rate 7.00%</u>	<u>1% Higher 8.00%</u>
Paid fire	\$ 323,652	\$ 205,485	\$ 110,253
Volunteer fire	129,046	86,354	52,416



**REQUIRED SUPPLEMENTARY INFORMATION**

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
DECEMBER 31, 2018, 2017, 2016, AND 2015**

	2018	2017	2016	2015
<b>Paid Fire</b>				
Proportion of the net pension liability	0.02%	0.02%	0.03%	0.03%
Proportionate share of the net pension liability	\$ 205,485	\$ 137,235	\$ 152,937	\$ 104,018
Covered - employee payroll	\$ 110,135	\$ 105,595	\$ 86,800	\$ 102,140
Proportionate share of the net pension liability as percentage of covered-employee payroll	186.58%	129.96%	176.19%	101.84%
Plan's fiduciary net position	\$ 205,485	\$ 137,235	\$ 152,937	\$ 104,098
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%	100.00%	100.00%
<b>Volunteer Fire</b>				
Proportion of the net pension liability	0.02%	0.02%	0.02%	0.02%
Proportionate share of the net pension liability	\$ 86,354	\$ 80,737	\$ 80,152	\$ 70,442
Covered - employee payroll	\$ -	\$ -	\$ -	\$ -
Proportionate share of the net pension liability as percentage of covered-employee payroll	N/A	N/A	N/A	N/A
Plan's fiduciary net position	\$ 86,354	\$ 80,737	\$ 80,152	\$ 70,442
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%	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.

**See Independent Auditor's Report.**

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**SCHEDULES OF CONTRIBUTIONS**  
**DECEMBER 31, 2018, 2017, 2016, AND 2015**

	2018	2017	2016	2015
<b>Paid Fire</b>				
Contractually required contribution	\$ 22,672	\$ 14,922	\$ 10,207	\$ 17,051
Contributions in relation to the contractually required contribution	\$ (22,672)	\$ (14,922)	\$ (10,207)	\$ (17,051)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 110,135	\$ 105,595	\$ 86,800	\$ 102,140
Contributions as a percentage of covered-employee payroll	20.59%	14.13%	11.76%	16.69%
	2018	2017	2016	2015
<b>Volunteer Fire</b>				
Contractually required contribution	\$ 3,416	\$ 2,221	\$ 2,319	\$ 2,335
Contributions in relation to the contractually required contribution	\$ (3,416)	\$ (2,221)	\$ (2,319)	\$ (2,335)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	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.



**INDEPENDENT AUDITOR’S 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, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 31, 2019.

**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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Rogers, Arkansas  
October 31, 2019

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2018**

II. Internal control findings were as follows:

**2018-001: Accounts Payable**

**Criteria:** Strong and effective controls over accounts payable can be critical to the operations of a government. Proper controls over accounts payable are crucial to producing accurate financial statements from which informed decisions can be made.

**Condition:** During our search for unrecorded liabilities, we noted exceptions in which invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

**Effect:** Under the current process, errors or omissions in accounts payable might not be prevented or detected on a timely basis by the District's management.

**Recommendation:** We recommend that the District implement accounting policies and procedures that ensure proper cutoff of expenses.

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

**2018-002: Backdating Checks**

**Criteria:** Strong and effective controls over cash can be critical to the operations of a government. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

**Condition:** During our audit procedures, it was noted that checks produced in January 2019 were backdated using a December 2018 date. These checks were then included in the list of December 31, 2018, outstanding checks as if they had been actually cut in December.

**Effect:** Any process or procedure that holds the books open or closes them in advance will yield inaccurate financial results.

**Recommendation:** We strongly recommend that all check disbursements be dated in sequence using the date the check is actually produced.

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

## **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, 2018**

**OPERATING REVENUES**

Charges for services		\$ 839,014
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**OPERATING EXPENSES**

Operations and maintenance	\$ 348,334	
Salaries and related benefits and taxes	193,559	

541,893

Net operating income (loss) before depreciation		297,121
Less: depreciation		<u>636,752</u>

**NET OPERATING (LOSS)** (339,631)

**INTEREST EXPENSE** (112,452)

**NET (LOSS)** (452,083)

**NET POSITION, BEGINNING OF YEAR** 5,769,604

**NET POSITION, END OF YEAR** \$ 5,317,521



**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1**  
**MISCELLANEOUS SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2018**

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, 2018:

**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	\$	10.50
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, 2018 averaged 1,759 per month.
3. Total gallons billed to water/sewer customers during the year ended December 31, 2018 amounted to 66,687,200.
4. Total dollars billed to water/sewer customers during the year ended December 31, 2018 amounted to \$1,256,992, which includes charges for service and debt assessments.
5. There is 355% 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, 2018, 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, 2018 was \$1,167,358. At December 31, 2018, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2018 was \$60,715.

**See Independent Auditor's Report.**

**HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1  
MISCELLANEOUS SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2018**

8. A schedule of insurance policies in effect at December 31, 2018 is as follows:

<b><u>Insurance Company</u></b>	<b><u>Type of Coverage</u></b>	<b><u>Amount of Coverage</u></b>	<b><u>Expiration Date</u></b>
Star Indemnity	Commercial Property, Equipment and Other	\$20,927,711	5-10-19
Star Indemnity	Earthquake	\$5,000,000	5-10-19
Star Indemnity	Flood	\$5,000,000	5-10-19
Arkansas Municipal Vehicle Program	Vehicles Liability	\$25,000/\$30,000	8-24-19
	Physical Damage	\$1,721,808	8-24-19
Travelers	General Liability	\$1,000,000	5-10-19
Travelers	Employee Benefit, Employee Practices	\$2,000,000	5-10-19
Travelers	Public Entity Management	\$1,000,000	5-10-19
Travelers	Crime	\$100,000	5-10-19
Philadelphia Insurance	Volunteer Accident	\$100,000	3-19-19

See Independent Auditor's Report.