

**Holiday Island Suburban
Improvement District #1**

**Financial Statements and Supplementary Information
December 31, 2020 and 2019**

(With Independent Auditor's Report Thereon)

Holiday Island Suburban Improvement District #1

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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, 2020 and 2019, 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.



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

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, 2020 **and 2019**, 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 5 through 11 and pension schedules on pages 35 through 36 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated November 11, 2021, 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.


Certified Public Accountants

Rogers, Arkansas
November 11, 2021

Management's Discussion and Analysis

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2020, 2019 And 2018

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 financial activities for the year ending December 31, 2020.

The 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. In 2019 the District added a Senior Accountant to the Management Team to regulate and authenticate financial transactions to ensure effectiveness and accuracy of all accounting tasks, recommend ways to reduce costs and enhance revenue, prepare documentation for external Auditors, and analyze financial statements for discrepancies and alert the District Manager if necessary. However, in 2020 this Senior Accountant retired, and the District has made arrangements to hire an accounting consultant to assist with various accounting activities and prepare key financial reports to be given to the Board of Commissioners and to the public in keeping with the Districts strong commitment to financial transparency.

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis

December 31, 2020, 2019 And 2018

The District continues to invest back into Holiday Island through replacing vital equipment, maintaining and upgrading amenities and prioritizing capital improvements to renew roads and water and wastewater 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. In 2020 the District completed a paving project on Stateline Road at a cost of \$125,700. The Road Department completed a major striping project which included multiple roads at a cost of \$12,944. The Road Department purchased and installed a double-walled chemical tank to store the deicer to aid in clearing the roads during extreme Winter Weather. This storage tank cost \$32,892. The Road Department also repaired extensive damage to a guard rail on Stateline Road following a motor vehicle accident at a cost of \$17,250.

The Water and Sewer Department completed two lift station upgrades at a cost of approximately \$8,000, and they are continuing with the systematic replacement of the water system's 50-year old pressure reducing valves. The water tank maintenance program continued in 2020 at a cost of \$111,000.

The District is financially stronger now than we were in prior years. For the sixth year in a row, the District has realized a net positive position; 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 resulting in a healthy year-end financial position.

- Marina slip rental fees were not increased in 2020.
- Golf activity fees were not increased in 2020.
- Recreation Center fees were not increased in 2020.
- The Assessment of Benefits fees have not been increased since 2011.

Financial Highlights for Holiday Island Suburban Improvement District

- Total current assets increased by \$753,514 or 15% in 2020.
- Current year operating revenues exceeded current year operating expenses and depreciation. Operating revenues increased by \$70,267 while total operating expenses decreased by \$43,831 for 2019. The District experienced net operating income of \$175,707 for 2020.
- The Suburban Improvement District's end of year net position increased by \$129,944 or 0.67% from 2019.
- Assessment of Benefits 2020 net revenue increased by \$124,871 or 6.01% compared to 2019.

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2020, 2019 And 2018

- The Suburban Improvement District's net cash from operating activities decreased by \$42,893 or 3.22% compared to 2019.
- 2020 operating expenses for water and sewer increased by \$36,569 compared to 2019.
- 2020 operating expenses for streets and roads maintenance increased by \$6,812 compared to 2019.
- 2020 operating expenses for Fire and Security Protection decreased by \$23,282 or 8.21% compared to 2019.
- 2020 operating expenses for recreation decreased by \$38,436 or 28.75% compared to 2019.
- 2020 operating expenses for clubhouse, restaurant, marina, and pro shop decreased by \$104,978 or 18.78% compared to 2019.
- Activity Card revenue decreased by \$8,703 or 9.62% compared to 2019.
- Operating expenses for general administration increased by \$43,634 or 5.00% compared to 2018.

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, 2020, 2019 And 2018

Financial Highlights

Assets, Liabilities and Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Total current assets	\$ 5,935,601	\$ 5,182,087	\$ 4,694,635
Restricted cash and investments	60,953	60,654	60,715
Other noncurrent assets	17,666,984	18,574,760	19,008,215
Total Assets	<u>\$ 23,663,538</u>	<u>\$ 23,817,501</u>	<u>\$ 23,763,565</u>
Deferred Outflows of Resources			
Pension costs	<u>\$ 33,121</u>	<u>\$ 50,708</u>	<u>\$ 150,362</u>
Liabilities			
Total current liabilities	\$ 526,795	\$ 513,905	\$ 445,805
Noncurrent liabilities	3,514,450	3,852,890	4,006,270
Total Liabilities	<u>\$ 4,041,245</u>	<u>\$ 4,366,795</u>	<u>\$ 4,452,075</u>
Deferred Inflows of Resources			
Pension Costs	<u>\$ 75,130</u>	<u>\$ 51,074</u>	<u>\$ 48,050</u>
Net Position			
Invested in capital assets, net of related debt	\$ 14,104,498	\$ 14,717,082	\$ 1,259,277
Restricted	1,337,948	1,278,636	1,228,073
Unrestricted			
Undesignated	2,691,876	2,044,565	1,345,835
Designated	1,445,962	1,410,057	15,580,617
Total Net Position	<u>\$ 19,580,284</u>	<u>\$ 19,450,340</u>	<u>\$ 19,413,802</u>
Operating Results and Changes in Net Position			
Operating Revenues	<u>\$ 4,466,862</u>	<u>\$ 4,396,595</u>	<u>\$ 4,303,322</u>
Operating Expenses			
Depreciation	1,256,796	1,220,047	1,164,574
Other operating expenses	3,034,359	3,114,939	3,000,411
Total Operating Expenses	<u>4,291,155</u>	<u>4,334,986</u>	<u>4,164,985</u>
Operating Income	<u>175,707</u>	<u>61,609</u>	<u>138,337</u>
Other Revenues (Expenses)			
Interest, net	(50,163)	(40,049)	(76,095)
Other income	4,400	14,978	-
Total Other Revenues (Expenses)	<u>(45,763)</u>	<u>(25,071)</u>	<u>(76,095)</u>
Change in Net Position	<u>129,944</u>	<u>36,538</u>	<u>62,242</u>
Net Position, Beginning of Year	<u>19,450,340</u>	<u>19,413,802</u>	<u>19,351,560</u>
Net Position, End of Year	<u>\$ 19,580,284</u>	<u>\$ 19,450,340</u>	<u>\$ 19,413,802</u>

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2020, 2019 And 2018

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.

Cash increased \$569,762 or 18.10% for the year ended December 31, 2020. The District also increased its assets in the form of assessments receivable, accrued interest receivable, and prepaid expenses. Due to the factors mentioned above, the District's current assets increased by \$753,514 or 14.54% from the prior year. The net book value for the District's property, wastewater treatment plant, and equipment decreased by \$907,776 or 4.89%. 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 \$171,550 or 0.72% 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 2020 operating expenses and depreciation for the year ended December 31, 2020. Operating revenues increased by \$70,267 or 1.60% while total operating expenses decreased by \$43,831 or 1.01% from 2019. The District experienced a net operating income of \$175,707 for 2020.

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 \$1,289,515 decreased \$42,893 or 3.22% from 2019. The net cash used for capital and related financing activities of \$736,752 decreased by \$279,062 or 27.47% from 2019. The factors mentioned above resulted in the District's Cash increasing by \$570,061 or 17.77%.

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 2020 budget, including: local economic factors, the need to attract and retain a qualified workforce, and the assessment of benefits and fees that will be charged for utilities and amenities.

The foremost financial concern for the District is with the declining number of residential and commercial lots in private hands. 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

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2020, 2019 And 2018

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.

There are currently 5,141 residential and commercial properties within the Holiday Island boundaries, of which, 3,601 are in private ownership. The remaining lots are held by Arkansas Commissioner of State Lands for delinquent county property tax. The 3,601 properties in private ownership is a significant increase from the previous year; however, it is doubtful that the increase will result in any meaningful increase in revenue. Several out-of-state real estate investors purchase large quantities of unimproved lots from tax sales and from the Arkansas Commissioner of State Lands. The out-of-state real estate investors use online real estate auction sites to quickly resale the lots at bargain prices to buyers who are unfamiliar with Holiday Island's assessment of benefits, building standards, and restrictive covenants. When the new owners discover the full tax burden of owning property or the restrictive covenants prohibit their intended use for the property, many new owners simply walk away from their property, to once again be foreclosed on.

Holiday Island has seen a recent surge in new and existing home sales. The Holiday Island housing market is currently strong with increasing home values. New home construction significantly increased in 2019 with 9 building permits issued. Several new home builders have moved their operations to Holiday Island to build both spec homes and custom design homes. The number of building permits issued in first few months of 2020 has surpassed the number permits issued for all of 2019. With new homes and new residents moving to Holiday Island the recent housing surge will likely continue and provide relief to the historically stagnated housing market.

Since 1970, the Holiday Island Suburban Improvement District has served as Holiday Island's sole form of local government. As a multi-function improvement district, its powers and functions are limited to those functions expressly granted in Arkansas statutes. The improvement district is also limited in its sources of revenue to pay for essential public services. Many residents believe that the improvement district's lack of traditional municipal powers, functions, and financing is a major hindrance in the continued development of Holiday Island. In 2019, a citizens group formed for the purpose of circulating a petition to place the question of incorporating a new municipality in Holiday Island on the 2020 General Election Ballot. If the voters choose incorporation, the newly formed municipality will begin to leverage new sources of revenue through County and State revenue sharing and grants not currently available to the improvement district. The incorporation will likely enhance the improvement district's ability to deliver services and have direct and indirect benefits to district's future budgets. Because the improvement district and a newly formed municipality would have commonality in basic functions, both entities would benefit by having cooperative relationship. Intergovernmental agreements can greatly improve services, save money through economies of scale, and lead to a culture of community cooperation.

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis

December 31, 2020, 2019 And 2018

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flow of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated.

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 or Senior Accountant at (479) 253-9700.

Basic Financial Statements

Holiday Island Suburban Improvement District #1

Statements of Net Position December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash	\$ 3,717,544	\$ 3,147,782
Certificates of deposit	83,505	89,562
Certificates of deposit - designated	1,445,962	1,410,057
Assessments receivable, net	456,184	337,247
Accounts receivable	125,543	85,429
Accrued interest receivable	4,764	5,133
Inventory - pro shop	40,773	39,313
Prepaid expenses	<u>61,326</u>	<u>67,564</u>
Total Current Assets	5,935,601	5,182,087
Restricted cash	60,953	60,654
Property, plant, and equipment, net	17,666,984	18,574,760
Deferred Outflows of Resources		
Deferred pension outflows	<u>33,121</u>	<u>50,708</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 23,696,659</u></u>	<u><u>\$ 23,868,209</u></u>

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Net Position December 31, 2020 and 2019

	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued expenses	\$ 222,924	\$ 221,429
Current portion of bonds payable	272,806	265,456
Current portion of capital leases	31,065	27,020
Total Current Liabilities	526,795	513,905
Long-term Liabilities		
Bonds payable	3,175,584	3,448,605
Capital leases	83,031	116,597
Net pension liability	255,835	287,688
	3,514,450	3,852,890
Deferred Inflows of Resources		
Deferred pension inflows	75,130	51,074
Total Liabilities and Deferred Inflows of Resources	4,116,375	4,417,869
Net Position		
Invested in capital assets, net of related debt	14,104,498	14,717,082
Restricted	1,337,948	1,278,636
Unrestricted		
Undesignated	2,691,876	2,044,565
Designated for reserve funds	1,445,962	1,410,057
Total Net Position	19,580,284	19,450,340
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 23,696,659	\$ 23,868,209

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Revenues, Expenses, and Changes in Net Position Years ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Assessments, net	\$ 2,204,286	\$ 2,079,415
Water and sewer	942,245	797,369
Fees, sales, and rental	594,233	769,814
Debt service assessments	456,946	439,482
Activity cards	81,730	90,433
Other	187,422	220,082
	4,466,862	4,396,595
OPERATING EXPENSES		
Water and sewer	641,695	605,126
Streets and roads	277,634	270,822
Fire and security protection	260,306	283,588
Recreation	95,254	133,690
18 hole golf course	389,408	390,510
Clubhouse, restaurant, marina and pro shop	454,081	559,059
General and administrative	915,778	872,144
	3,034,359	3,114,939
Net operating income before depreciation	1,432,503	1,281,656
Less: depreciation	1,256,796	1,220,047
Net operating income	175,707	61,609
OTHER NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of property and equipment	4,400	14,978
Interest income	46,777	65,278
Interest expense	(96,940)	(105,327)
	(45,763)	(25,071)
Change in net position	129,944	36,538
Net position - beginning of year	19,450,340	19,413,802
Net position - end of year	\$ 19,580,284	\$ 19,450,340

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Cash Flows Years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for:		
Assessments	\$ 2,101,625	\$ 1,975,390
Water and sewer	902,131	814,431
Fees, sales, and rental	594,233	769,814
Debt service assessments	483,193	417,723
Activity cards and other revenue	269,152	310,515
Payments for:		
Water and sewer	(637,568)	(591,719)
Streets and roads	(276,489)	(267,182)
Fire and security protection	(261,341)	(278,164)
Recreation	(97,760)	(130,460)
18 hole golf course	(388,560)	(383,870)
9 hole golf course	(188)	-
Clubhouse, restaurant, marina and pro shop	(460,462)	(548,656)
General and administrative	(938,451)	(755,881)
Net Cash From Operating Activities	1,289,515	1,331,941
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds payable	(265,671)	(258,673)
Principal payments on capital lease	(29,521)	(40,060)
Acquisition of property, plant, and equipment	(349,020)	(626,007)
Interest paid	(96,940)	(90,607)
Net Cash (Used For) Capital and Related Financing Activities	(736,752)	(1,015,347)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in certificates of deposit	(29,848)	(32,808)
Interest received	47,146	62,372
Net Cash From Investing Activities	17,298	29,564
NET CHANGE IN CASH	570,061	346,158
CASH, BEGINNING OF YEAR	3,208,436	2,862,278
CASH, END OF YEAR	\$ 3,778,497	\$ 3,208,436
CASH	\$ 3,717,544	\$ 3,147,782
RESTRICTED CASH	60,953	60,654
	\$ 3,778,497	\$ 3,208,436

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Cash Flows Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income	\$ 175,707	\$ 61,609
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	1,256,796	1,220,047
Net change in pension liability	9,790	98,527
Change in:		
Assessments receivable, net	(118,937)	(125,784)
Accounts receivable	(40,114)	17,062
Inventory - pro shop	(1,460)	12,193
Prepaid expenses	6,238	(10,443)
Accounts payable and accrued expenses	1,495	59,197
Total Adjustments	<u>1,113,808</u>	<u>1,270,799</u>
Net Cash From Operating Activities	<u>\$ 1,289,515</u>	<u>\$ 1,332,408</u>

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

NOTE 1: NATURE OF BUSINESS

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 issued 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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.

Restricted Cash

Restricted cash consists of amounts held in a trust account for the purpose of debt service. At December 31, 2020 and 2019, the District had restricted cash balances of \$60,953 and \$60,654, respectively.

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 \$304,122 and \$224,832 as of December 31, 2020 and 2019, respectively.

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 \$8,243,000 and \$8,150,000 at December 31, 2020 and 2019, respectively. See Notes 7, 8 and 12 for more information regarding property, plant, and equipment.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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
19 th 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

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.

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.

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.

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 16 for additional information.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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 16 for additional information.

Upcoming Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. This ASU requires all leases with lease terms more than 12 months to be capitalized as a right-of-use asset and lease liability on the Statement of Net Position at the date of lease commencement. The leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the Statement of Revenues, Expenses, and Changes in Net Position. This ASU will be effective for the District for the year ending December 31, 2022. The District is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 3: 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 “Certificates of deposit.” Also included in “Cash” on the Statements of Net Position is petty cash amounting to \$500 and \$1,200 at December 31, 2020 and 2019, respectively. At December 31, 2020, all bank balances were insured or collateralized.

NOTE 4: 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, 2020 and 2019 was \$1,205,329 and \$1,169,424, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 40% and 38% at December 31, 2020 and 2019, respectively.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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, 2020 and 2019 was \$240,633. The District was in compliance with the requirements of the Equipment Reserve Fund as of December 31, 2020 and 2019.

NOTE 5: 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 6: STATE ASSISTANCE

During the years ended December 31, 2020 and 2019, the District received state assistance of \$20,515 and \$20,702, 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.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

NOTE 7: PROPERTY, PLANT, AND EQUIPMENT

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

	2020				December 31, 2020
	December 31, 2019	Additions	Disposals	Reclassification	
9 hole golf course	\$ 1,143,917	\$ -	\$ -	\$ -	\$ 1,143,917
18 hole golf course	1,551,825	15,000	-	-	1,566,825
19th hole restaurant	67,977	-	-	-	67,977
Buildings	4,356,071	-	(4,533)	20,836	4,351,538
Fire department equipment	1,167,999	-	-	-	1,167,999
Land	1,499,173	-	-	-	1,499,173
Public works	1,095,077	6,250	(49,976)	-	1,051,351
Recreational facilities	1,173,210	8,008	-	-	1,181,218
Resource management	89,007	-	-	-	89,007
Sewer system	18,325,742	10,929	-	-	18,336,671
Streets and roads	9,238,454	173,943	-	-	9,412,397
Water system	8,112,407	109,461	(16,642)	-	8,205,226
Construction in progress	39,407	25,429	-	(20,836)	44,000
Total	47,860,266	349,020	(71,151)	-	48,117,299
Accumulated depreciation	(29,285,506)	(1,256,796)	71,151	-	(30,471,151)
	<u>\$ 18,574,760</u>	<u>\$ (907,776)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,646,148</u>

	2019				December 31, 2019
	December 31, 2018	Additions	Disposals	Reclassification	
9 hole golf course	\$ 1,143,917	\$ -	\$ -	\$ -	\$ 1,143,917
18 hole golf course	1,391,706	160,119	-	-	1,551,825
19th hole restaurant	67,977	-	-	-	67,977
Buildings	4,267,050	89,021	-	-	4,356,071
Fire department equipment	1,167,999	-	-	-	1,167,999
Land	1,499,173	-	-	-	1,499,173
Public works	1,041,824	53,253	-	-	1,095,077
Recreational facilities	1,173,210	-	-	-	1,173,210
Resource management	89,007	-	-	-	89,007
Sewer system	18,304,217	21,525	-	-	18,325,742
Streets and roads	8,912,993	325,461	-	-	9,238,454
Water system	7,999,194	113,213	-	-	8,112,407
Construction in progress	15,407	24,000	-	-	39,407
Total	47,073,674	786,592	-	-	47,860,266
Accumulated depreciation	(28,065,459)	(1,220,047)	-	-	(29,285,506)
	<u>\$ 19,008,215</u>	<u>\$ (433,455)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,574,760</u>

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES

The District had additions of property and equipment during the years ended December 31, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Capitalized cost of property and equipment	\$ -	\$ 786,592
Amount financed through capital lease	-	(160,119)
Other adjustments	-	(466)
	<u> </u>	<u> </u>
Cash paid	<u>\$ -</u>	<u>\$ 626,007</u>

NOTE 9: 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 10: 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 \$33,988 and \$32,996, respectively, during the years ended December 31, 2020 and 2019 on participant salaries of \$690,462 and \$669,764, respectively.

NOTE 11: 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

Notes to Financial Statements December 31, 2020 and 2019

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>
2021	\$ 272,806	\$ 59,239	\$ 33,581	\$ 365,626
2022	280,360	54,432	31,104	365,896
2023	288,123	49,492	28,281	365,896
2024	296,101	44,415	25,380	365,896
2025	365,896	39,198	22,399	427,493
2026-2030	1,652,647	112,530	64,303	1,829,480
2031	<u>292,457</u>	<u>4,716</u>	<u>2,694</u>	<u>299,867</u>
	<u>\$ 3,448,390</u>	<u>\$ 364,022</u>	<u>\$ 207,742</u>	<u>\$ 4,020,154</u>

A summary of changes in bonds payable follows:

	December 31, 2019	Additions	Retirements	December 31, 2020	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 3,714,061</u>	<u>\$ -</u>	<u>\$ (265,671)</u>	<u>\$ 3,448,390</u>	<u>\$ 272,806</u>
	December 31, 2018	Additions	Retirements	December 31, 2019	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	<u>\$ 3,972,734</u>	<u>\$ -</u>	<u>\$ (258,673)</u>	<u>\$ 3,714,061</u>	<u>\$ 265,456</u>

NOTE 12: CAPITAL LEASES

During the year ended December 31, 2014, the District entered into leases for golf course maintenance equipment that are classified as capital leases. During 2019, the District exercised its bargain purchase option and paid the lessor \$1 for the right, title and interest of the equipment. 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 \$264,919 and \$222,976 as of December 31, 2020 and 2019, respectively. Amortization of the assets under capital lease is included in depreciation expense. See Notes 7 and 8.

During the year ended December 31, 2019, the District entered into a lease for golf course maintenance equipment that is classified as a capital lease. The cost of equipment under the capital lease is included as a component of the 18 hole golf course at a cost of \$160,119 with accumulated depreciation of \$53,373 and \$21,349 as of December 31, 2020 and 2019, respectively. Amortization of the assets under capital lease is included in depreciation expense. See Notes 7 and 8.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2020, are as follows:

Years ending December 31,		
2021	\$	36,692
2022		36,692
2023		36,693
2024		<u>18,346</u>
Total minimum lease payments		128,423
Less amount representing interest		<u>14,327</u>
Present value of minimum lease payments	\$	<u>114,096</u>

NOTE 13: OPERATING LEASES

The District leases golf carts under a noncancelable operating lease. Rental expense under this operating lease was \$24,204 for the years ended December 31, 2020 and 2019. 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 2021 through 2022.

NOTE 14: MARINA LEASES

During the year ended December 31, 2000, the District entered into a lease with the United States Secretary of the Army for a marina on Table Rock Lake. During 2019, the District revised the term end date to 2029. 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, 2020 and 2019, the rate was 2.3% of gross receipts. The District paid approximately \$4,000 under this lease during the years ended December 31, 2020 and 2019.

During the year ended December 31, 2015, the District began subleasing the marina on Table Rock Lake to KP's Dock Service, LLC. During 2019, the District revised the term end date to 2022. 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, 2020 and 2019, rental payments received by the District under this sublease totaled approximately \$191,000 and \$175,000, 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

Notes to Financial Statements December 31, 2020 and 2019

NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the water and sewer funds for the years ended December 31, 2020 and 2019, is as follows:

	2020	
	Water Fund	Sewer Fund
Operating revenues	\$ 580,702	\$ 361,543
Operating expenses	(328,716)	(312,979)
Depreciation	(237,859)	(446,497)
Nonoperating expenses - interest	-	(96,940)
Change in net position	\$ 14,127	\$ (494,873)
Property, plant and equipment:		
Additions	\$ 109,461	\$ 10,929
Disposals	16,642	-
Total assets and deferred outflows of resources	\$ 8,387,433	\$ 19,613,667
Bonds and other long-term liabilities payable from operating revenues	1,724,195	1,724,195
Total net position	\$ 6,663,238	\$ 17,889,472

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

	2019	
	Water Fund	Sewer Fund
Operating revenues	\$ 471,825	\$ 325,544
Operating expenses	(279,175)	(325,951)
Depreciation	(241,517)	(415,808)
Nonoperating expenses - interest	-	(105,327)
Change in net position	\$ (48,867)	\$ (521,542)
Property, plant and equipment:		
Additions	\$ 113,213	\$ 21,525
Disposals	-	-
Total assets and deferred outflows of resources	\$ 8,243,784	\$ 19,543,725
Bonds and other long-term liabilities payable from operating revenues	1,857,031	1,857,031
Total net position	\$ 6,386,753	\$ 17,686,694

NOTE 16: 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.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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 2020 calendar year was computed to be 22.59% of active member payroll. The District's applicable rate for 2020 is 23.50% 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, 2020 valuation and measurement date for paid firemen, there were 7 retired members covered by benefit terms and 3 active members. During the years ended December 31, 2020 and 2019, the District contributed \$5.90 per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. At the December 31, 2020 valuation and measurement date for volunteer firemen, there was 1 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 was measured as of December 31, 2020, 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, 2020, 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, 2020 **and 2019**, the District reported net pension liability for their proportionate share of the net pension liability of each plan as follows:

	<u>2020</u>	<u>2019</u>
Paid fire	\$ 195,576	\$ 215,140
Volunteer fire	<u>60,259</u>	<u>78,441</u>
	<u>\$ 255,835</u>	<u>\$ 293,581</u>

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

For the years ended December 31, 2020 **and 2019**, the District recognized pension expense of \$42,462 and \$68,186, related to this plan, respectively. At December 31, 2020 **and 2019**, the District reported deferred outflows of resources and deferred inflows of resources as of December 31, 2020 and 2019 (valuation dates), related to pensions from the following sources:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,394	\$ 413
Changes of assumptions	5,452	-
Changes in proportion and differences between employer contributions and proportionate share	5,275	10,931
Net difference between projected and actual earnings on pension plan investments	-	63,786
	\$ 33,121	\$ 75,130
2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,751	\$ 267
Changes of assumptions	22,156	-
Changes in proportion and differences between employer contributions and proportionate share	6,801	12,694
Net difference between projected and actual earnings on pension plan investments	-	38,113
	\$ 50,708	\$ 51,074

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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,	Paid Firemen	Volunteer Fire	Total
2021	\$ 3,052	\$ (7,540)	\$ (4,488)
2022	(1,544)	(5,405)	(6,949)
2023	(15,167)	(6,052)	(21,219)
2024	(7,358)	(1,995)	(9,353)
Thereafter	-	-	-

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Paid Service Assumptions	
Wage Inflation	3.25%
Price Inflation	2.50%
Salary Increases	3.75% to 18.25%, including inflation
Investment rate of return	7.50%
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-year smoothed market; 20% corridor
Volunteer Service Assumptions	
Inflation	2.50%
Investment rate of return	7.50%
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 2017 valuation pursuant to an experience study of the period 2012-2016.

Mortality

RP-2014 Healthy Annuitant, Disabled Retiree, and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

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, 2020, 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
Fixed Income	25%	0.90%	0.22%
Domestic Equity	42%	5.10%	2.15%
Foreign Equity	18%	7.10%	1.27%
Alternative Investments	15%	7.40%	1.12%
Total	100%		4.76%
Expected Inflation			2.25%
Total Return			7.01%

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:

	1% Lower 6.00%	Discount Rate 7.00%	1% Higher 8.00%
Paid fire	\$ 333,896	\$ 195,576	\$ 84,016
Volunteer fire	101,197	60,259	27,604

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2020 and 2019

NOTE 17: RISKS AND UNCERTAINTIES

As of the date of the Independent Auditor's Report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the District's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that the District's operations will be impacted.

NOTE 18: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2021, the date the financial statements were available to be issued.

Required Supplementary Information

Holiday Island Suburban Improvement District #1

Schedules of the District's Proportionate Share of the Net Pension Liability December 31, 2020, 2019, 2018, 2017, 2016 and 2015

	2020	2019	2018	2017	2016	2015
Paid Fire						
Proportion of the net pension liability	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%
Proportionate share of the net pension liability	\$ 195,576	\$ 215,140	\$ 205,485	\$ 137,235	\$ 152,937	\$ 104,018
Covered - employee payroll	\$ 104,996	\$ 133,036	\$ 110,135	\$ 105,595	\$ 86,800	\$ 102,140
Proportionate share of the net pension liability as percentage of covered-employee payroll	186.27%	161.72%	186.58%	129.96%	176.19%	101.84%
Plan's fiduciary net position	\$ 195,576	\$ 215,140	\$ 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%	100.00%	100.00%
Volunteer Fire						
Proportion of the net pension liability	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Proportionate share of the net pension liability	\$ 60,259	\$ 78,441	\$ 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	N/A	N/A
Plan's fiduciary net position	\$ 60,259	\$ 78,441	\$ 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%	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, 2020, 2019, 2018, 2017, 2016, and 2015

	2020	2019	2018	2017	2016	2015
Paid Fire						
Contractually required contribution	\$ 25,161	\$ 23,911	\$ 22,672	\$ 14,922	\$ 10,207	\$ 17,051
Contributions in relation to the contractually required contribution	\$ (25,161)	\$ (23,911)	\$ (22,672)	\$ (14,922)	\$ (10,207)	\$ (17,051)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 108,453	\$ 104,996	\$ 133,036	\$ 110,135	\$ 105,595	\$ 102,140
Contributions as a percentage of covered-employee payroll	23.20%	22.77%	17.04%	13.55%	9.67%	16.69%
	2020	2019	2018	2017	2016	2015
Volunteer Fire						
Contractually required contribution	\$ 9,204	\$ 3,512	\$ 3,416	\$ 2,221	\$ 2,319	\$ 2,335
Contributions in relation to the contractually required contribution	\$ (9,204)	\$ (3,512)	\$ (3,416)	\$ (2,221)	\$ (2,319)	\$ (2,335)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	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.

See Independent Auditor's Report.



**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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2021.

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) as a basis for designing 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 financial statements. 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.


Certified Public Accountants

Rogers, Arkansas
November 11, 2021

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, 2020

OPERATING REVENUES		
Charges for services		\$ 942,245
OPERATING EXPENSES		
Operations and maintenance	\$ 475,615	
Salaries and related benefits and taxes	<u>166,080</u>	
		<u>641,695</u>
Net operating income (loss) before depreciation		300,550
Less: depreciation		<u>684,356</u>
NET OPERATING (LOSS)		(383,806)
INTEREST EXPENSE		<u>(96,940)</u>
NET (LOSS)		(480,746)
NET POSITION, BEGINNING OF YEAR		<u>4,742,023</u>
NET POSITION, END OF YEAR		<u>\$ 4,261,277</u>

See Independent Auditor's Report.

Holiday Island Suburban Improvement District #1

Miscellaneous Supplementary Information December 31, 2020

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, 2020:

Water Services:

Minimum charge for first 1,500 gallons	\$	14.10
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	\$	12.00
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, 2020 averaged 1,766 per month.
3. Total gallons billed to water/sewer customers during the year ended December 31, 2020 amounted to 62,335,421.
4. Total dollars billed to water/sewer customers during the year ended December 31, 2020 amounted to \$1,399,191, which includes charges for service and debt assessments.
5. There is 394% 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, 2020, 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, 2020 was \$1,276,995. At December 31, 2020, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2020 was \$60,953.

See Independent Auditor's Report.

Holiday Island Suburban Improvement District #1

Miscellaneous Supplementary Information December 31, 2020

8. A schedule of insurance policies in effect at December 31, 2020 is as follows:

<u>Insurance Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
Star Indemnity	Commercial Property, Equipment and Other	\$20,069,664	5-10-21
Star Indemnity	Earthquake	\$1,000,000	5-10-21
Star Indemnity	Flood	\$1,000,000	5-10-21
Arkansas Municipal Vehicle Program	Vehicles Liability	\$25,000/\$30,000	8-24-21
	Physical Damage	\$1,701,609	8-24-21
Travelers	General Liability	\$1,000,000	5-10-21
Travelers	Employee Benefit, Employee Practices	\$2,000,000	5-10-21
Travelers	Public Entity Management	\$1,000,000	5-10-21
Travelers	Crime	\$100,000	5-10-21
Philadelphia Insurance	Volunteer Accident	\$100,000	3-19-21

See Independent Auditor's Report.