

**Holiday Island Suburban
Improvement District #1**

**Financial Statements and Supplementary Information
December 31, 2023 and 2022**

(With Independent Auditor's Report Thereon)

Holiday Island Suburban Improvement District #1

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of the District’s Proportionate Share of the Net Pension Liability	34
Schedules of Contributions	35
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 <i>GOVERNMENT AUDITING STANDARDS</i>	36
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenses, and Changes in Net Position – Water and Sewer Operations Only	39
Miscellaneous Supplementary Information	40



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 the schedules on pages 35 and 36 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government 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 audit 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 sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 additional analysis 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of 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.



Rogers, Arkansas
August 23, 2024

Management's Discussion and Analysis

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2023 and 2022

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, 2023.

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.

During 2023, the District purchased the following capital assets:

Fire Department

- a) 2007 E-ONE Typhoon Fire Engine - \$119,000
- b) 2005 Ladder Truck - \$35,000
- c) 2007 Ladder Truck - \$35,000
- d) 2004 Pierce Quantum 55' Skyboom Aerial Ladder Truck - \$100,085

Golf Maintenance

- a) Turfco Blower - \$11,201

Road Department

- a) 2023 10 x 20 Equipment trailer - \$14,995
- b) 2020 F350 w/HD plow - \$62,750
- c) 2022 F350 w/accessories - \$75,254
- d) 550 Gas Power anti-ice system - \$8,745

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2023 and 2022

- e) 8' Plow - \$7,750
- f) 10' Electric Spreader - \$12,720
- g) Cushman 800X Gas Hauler - \$12,733

Administrative Office

- a) Mini-splits for the District Manager office and offices leased by the City of Holiday Island - \$15,579

Pro Shop

- a) Golf simulator - \$10,500

Recreation Center

- a) Pool cover for small pool - \$7,223

Campground

- a) Improvements were made at the campground totaling \$20,850

At the end of 2023, the construction of the new Recreation Center was still ongoing, with the anticipated completion date in the Spring of 2024. This project was approved by the Board in 2022 to be 100% cash funded with excess funds from the General Fund. At the end of 2023, the total inception to date costs for the demolition and/or construction for the Recreation Center was \$498,240.

Per the Interlocal Agreement dated January 1, 2023 between the District and the City of Holiday Island, the City's contribution was reduced for the Fire; however, the contribution for the Road Department increased. The City's contribution to the Fire Department was reduced from \$50,000 in 2022 to \$5,000 in 2023. The City's contribution to the Road Department increased from \$12,337 received in 2022 to \$23,644 in 2023.

The City took over the Sheriff Contract effective in 2023.

The District's District Manager resigned effective December 31, 2023.

The District received \$68,365 in grant funds from the Arkansas Department of Agriculture for the reimbursement of repairs to Well #1.

Due to COVID, the foreclosure process got behind due to court's shutting down, and then limiting cases that were heard once offices opened up for services. In 2023, the District was able to complete the following foreclosure processes: a) Completed foreclosure process on all delinquent lots from 2020 & b) Completed title searches on 1,250 lots to begin the next set of foreclosures from 2021 to 2022. Amenity fees remained the same as 2022.

A lawsuit was brought against the District on December 29, 2023 (summons signed by Carroll County Deputy Clerk) concerning the Assessment of Benefits (AOB). At the end of 2023, the lawsuit was still pending.

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2023 and 2022

New contract for management of the Marina was entered into between the District and KP's Dock Service in 2023. The District will receive 80% of the yearly boat slip rentals (less the excise taxes and pesticide services) and 3% of all gross sales that occur in connection with the operating of the Marina.

Financial Highlights for Holiday Island Suburban Improvement District

- Total current assets decreased by \$267,082 or 3.39% in 2023.
- Current year operating revenues were less than current year operating expenses. Operating revenues decreased by \$52,106 while total operating expenses increased by \$339,941 for 2023. The District experienced a net operating loss of \$657,064 after deducting depreciation and amortization expense of \$1,419,454 for 2023.
- The Suburban Improvement District's end of year net position decreased by \$677,818 or 3.31% from 2022.
- Assessment of Benefits 2023 net revenue decreased by \$94,228 or 3.34% compared to 2022.
- The Suburban Improvement District's net cash from operating activities decreased by \$224,522 or 24.85% compared to 2022.
- 2023 operating expenses for water and sewer increased by \$8,582 compared to 2022.
- 2023 operating expenses for streets and roads maintenance increased by \$51,486 compared to 2022.
- 2023 operating expenses for Fire and Security Protection increased by \$164,840 or 32.89% compared to 2022.
- 2023 operating expenses for recreation increased by \$5,363 or 3.05% compared to 2022.
- 2023 operating expenses for clubhouse, restaurant, marina, and pro shop decreased by \$28,974 or 4.86% compared to 2022.
- Operating expense for general administrative increased by \$84,992 or 5.65% compared to 2022.

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, 2023 and 2022

Financial Highlights

Assets, Liabilities and Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Total current assets	\$ 7,608,430	\$ 7,875,512	\$ 6,813,274
Restricted cash and investments	60,973	60,973	60,973
Other noncurrent assets	<u>15,610,627</u>	<u>16,311,751</u>	<u>16,765,982</u>
Total Assets	<u>\$ 23,280,030</u>	<u>\$ 24,248,236</u>	<u>\$ 23,640,229</u>
Deferred Outflows of Resources			
Pension costs	<u>\$ 191,527</u>	<u>\$ 192,442</u>	<u>\$ 57,532</u>
Liabilities			
Total current liabilities	\$ 714,368	\$ 668,833	\$ 509,251
Noncurrent liabilities	<u>2,941,267</u>	<u>3,257,293</u>	<u>3,154,995</u>
Total Liabilities	<u>\$ 3,655,635</u>	<u>\$ 3,926,126</u>	<u>\$ 3,664,246</u>
Deferred Inflows of Resources			
Pension Costs	<u>\$ 32,868</u>	<u>\$ 53,680</u>	<u>\$ 135,342</u>
Net Position			
Invested in capital assets, net of related debt	\$ 12,988,619	\$ 13,367,838	\$ 13,507,717
Restricted	2,383,106	2,066,940	1,196,695
Unrestricted			
Undesignated	2,260,728	3,244,473	3,747,799
Designated	<u>2,150,601</u>	<u>1,781,621</u>	<u>1,445,962</u>
Total Net Position	<u>\$ 19,783,054</u>	<u>\$ 20,460,872</u>	<u>\$ 19,898,173</u>
Operating Results and Changes in Net Position			
Operating Revenues	<u>\$ 5,505,155</u>	<u>\$ 5,557,261</u>	<u>\$ 5,143,305</u>
Operating Expenses			
Amortization	84,624	37,700	-
Depreciation	1,334,830	1,293,420	1,262,938
Other operating expenses	<u>4,742,765</u>	<u>4,402,824</u>	<u>3,489,419</u>
Total Operating Expenses	<u>6,162,219</u>	<u>5,733,944</u>	<u>4,752,357</u>
Operating Income	<u>(657,064)</u>	<u>(176,683)</u>	<u>390,948</u>
Other Revenues (Expenses)			
Interest, net	117,386	(52,240)	(73,559)
Other income	<u>(138,140)</u>	<u>791,622</u>	<u>500</u>
Total Other Revenues (Expenses)	<u>(20,754)</u>	<u>739,382</u>	<u>(73,059)</u>
Change in Net Position	<u>(677,818)</u>	<u>562,699</u>	<u>317,889</u>
Net Position, Beginning of Year	<u>20,460,872</u>	<u>19,898,173</u>	<u>19,580,284</u>
Net Position, End of Year	<u>\$ 19,783,054</u>	<u>\$ 20,460,872</u>	<u>\$ 19,898,173</u>

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2023 and 2022

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 decreased \$895,724 or 19.87% for the year ended December 31, 2023. The District increased its assets in the form of assessments receivable and prepaid expenses. Due to the factors mentioned above, the District's current assets decreased by \$267,082 or 3.39% from the prior year. The net book value for the District's property, wastewater treatment plant, and equipment decreased by \$701,124 or 4.30%. The District's total assets and deferred outflows of resources decreased by \$969,121 or 3.97% 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 were less than its 2023 operating expenses for the year ended December 31, 2023. Operating revenues decreased by \$52,106 or 0.94% while total operating expenses increased by \$339,941 or 7.72% from 2022. The District experienced a net operating loss of \$657,064 for 2023.

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 \$679,082 decreased \$224,522 or 24.85% from 2022. The net cash used for capital and related financing activities of \$1,343,174 decreased by \$1,114,619 or 487.68% from 2022. The factors mentioned above resulted in the District's Cash decreasing by \$895,724 or 345.81%.

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 2023 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.

Holiday Island Suburban Improvement District #1

Management's Discussion and Analysis December 31, 2023 and 2022

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 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, 3,750 are in private ownership. The remaining lots are held by Arkansas Commissioner of State Lands for delinquent county property tax. The 3,750 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.

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 November 2020, voters approved the incorporation of Holiday Island as a city. On December 3, 2020, the Carroll County Quorum Court signed an order establishing the City. The City and the District share the responsibility of providing services to the community.

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 Office Manager at (479) 253-9700.

Basic Financial Statements

Holiday Island Suburban Improvement District #1

Statements of Net Position December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash	\$ 3,612,658	\$ 4,508,382
Certificates of deposit	173,570	108,344
Certificates of deposit - designated	2,150,601	1,781,621
Assessments receivable, net	1,384,630	1,223,608
Accounts receivable	129,906	102,955
Inventory - pro shop	51,262	52,081
Prepaid expenses	<u>105,803</u>	<u>98,521</u>
Total Current Assets	7,608,430	7,875,512
Restricted Cash	60,973	60,973
Property, Plant, and Equipment, Net	15,610,627	16,311,751
Deferred Outflows of Resources		
Deferred pension outflows	<u>191,527</u>	<u>192,442</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 23,471,557</u></u>	<u><u>\$ 24,440,678</u></u>

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Net Position December 31, 2023 and 2022

	2023	2022
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued expenses	\$ 314,124	\$ 257,067
Current portion of lease liability	88,981	88,981
Current portion of bonds payable	296,101	288,123
Current portion of capital leases	15,162	34,662
	714,368	668,833
Long-term Liabilities		
Lease liability	90,673	170,284
Bonds payable	2,310,745	2,605,807
Capital leases	-	15,321
Net pension liability	539,849	465,881
	2,941,267	3,257,293
Deferred Inflows of Resources		
Deferred pension inflows	32,868	53,680
	3,688,503	3,979,806
Net Position		
Invested in capital assets, net of related debt	12,988,619	13,367,838
Restricted	2,383,106	2,066,940
Unrestricted		
Undesignated	2,260,728	3,244,473
Designated for reserve funds	2,150,601	1,781,621
	19,783,054	20,460,872
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 23,471,557	\$ 24,440,678

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, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Assessments, net	\$ 2,728,319	\$ 2,822,547
Water and sewer	1,052,839	973,629
Fees, sales, and rental	912,263	893,144
Debt service assessments	522,359	535,652
Grant income	71,365	3,000
Activity cards	106,761	83,674
Other	111,249	245,615
	<u>5,505,155</u>	<u>5,557,261</u>
OPERATING EXPENSES		
Water and sewer	867,006	858,424
Streets and roads	350,085	298,599
Fire and security protection	666,009	501,169
Recreation	181,094	175,731
18 hole golf course	521,995	468,343
Clubhouse, restaurant, marina and pro shop	566,591	595,565
General and administrative	1,589,985	1,504,993
	<u>4,742,765</u>	<u>4,402,824</u>
Net operating income before depreciation and amortization	762,390	1,154,437
Less: amortization	84,624	37,700
Less: depreciation	1,334,830	1,293,420
Net operating (loss)	<u>(657,064)</u>	<u>(176,683)</u>
OTHER NONOPERATING REVENUES (EXPENSES)		
Gain on sale of property, plant, and equipment	(138,140)	791,622
Interest income	202,574	35,961
Interest expense	(85,188)	(88,201)
	<u>(20,754)</u>	<u>739,382</u>
Change in net position	(677,818)	562,699
Net position - beginning of year	20,460,872	19,898,173
Net position - end of year	<u>\$ 19,783,054</u>	<u>\$ 20,460,872</u>

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Cash Flows Years ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for:		
Assessments	\$ 2,578,958	\$ 2,568,745
Water and sewer	1,025,888	973,755
Fees, sales, and rental	912,263	893,144
Debt service assessments	510,698	475,335
Grant income	71,365	3,000
Activity cards and other revenue	218,010	329,289
Payments for:		
Water and sewer	(859,703)	(846,003)
Streets and roads	(344,332)	(296,469)
Fire and security protection	(651,160)	(491,909)
Recreation	(179,360)	(172,670)
18 hole golf course	(514,767)	(464,106)
Clubhouse, restaurant, marina and pro shop	(563,837)	(588,724)
General and administrative	(1,524,941)	(1,479,783)
Net Cash From Operating Activities	679,082	903,604
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds payable	(287,084)	(281,400)
Principal payments on leases	(114,432)	(74,753)
Proceeds from sale of property, plant, and equipment	42,150	823,617
Acquisition of property, plant, and equipment	(898,620)	(607,818)
Interest paid	(85,188)	(88,201)
Net Cash (Used For) Capital and Related Financing Activities	(1,343,174)	(228,555)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in certificates of deposit	(434,206)	(346,608)
Interest received	202,574	35,961
Net Cash (Used For) From Investing Activities	(231,632)	(310,647)
NET CHANGE IN CASH	(895,724)	364,402
CASH, BEGINNING OF YEAR	4,569,355	4,204,953
CASH, END OF YEAR	\$ 3,673,631	\$ 4,569,355
CASH	\$ 3,612,658	\$ 4,508,382
RESTRICTED CASH	60,973	60,973
	\$ 3,673,631	\$ 4,569,355

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Statements of Cash Flows Years ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$ (657,064)	\$ (176,683)
Adjustments to reconcile net operating loss to net cash from operating activities:		
Depreciation	1,334,830	1,293,420
Amortization	84,624	37,700
Allowance for uncollectible accounts	107,348	209,412
Net change in pension liability	54,071	39,405
Change in:		
Assessments receivable, net	(268,370)	(523,531)
Accounts receivable	(26,951)	126
Inventory - pro shop	819	(6,145)
Prepaid expenses	(7,282)	(31,090)
Accounts payable and accrued expenses	57,057	60,990
Total Adjustments	1,336,146	1,080,287
Net Cash From Operating Activities	\$ 679,082	\$ 903,604
Noncash Investing and Financing Activities		
Acquisition of leased assets with additions to lease liabilities	\$ -	\$ 301,066

See accompanying notes to financial statements.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

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.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022, the District had restricted cash balances of \$60,973.

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 \$923,086 and \$815,738 as of December 31, 2023 and 2022, 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 \$6,986,000 and \$7,647,000 at December 31, 2023 and 2022, respectively. See Notes 7 and 11 for more information regarding property, plant, and equipment.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

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

Right-of-Use Leased Assets

Right-of-use leased assets are defined as leased assets with a useful life of more than one year and are recorded at present value of future lease payment, including expenses to place the asset into service. In accordance with GASB Statement No. 87, the District has reported right-of-use leased assets for equipment. Right-of-use leased assets are amortized over the shorter of the leased asset's useful life or the lease term. Total amortization expense related to right-of-use leased assets amounted to \$84,624 and \$37,700 for the years ended December 31, 2023 and 2022, respectively.

Lease Liability

As a lessee, a lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset, for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction. The District leases golf carts and a backhoe loader. The related lease liabilities are presented in the amounts equal to the present value of lease payments, payable during the remaining lease term. A lease liability in the amount of \$179,654 and \$259,265 was recognized as of December 31, 2023 and 2022, respectively.

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.

Deferred Inflows and Outflows of Resources

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

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

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

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position—All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

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”, “Certificates of deposit”, and “Certificates of deposit – designated”. Also included in “Cash” on the Statements of Net Position is petty cash amounting to \$1,500 at December 31, 2023 and 2022. At December 31, 2023 and 2022, all bank balances were insured or collateralized.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022 was \$1,909,968 and \$1,540,988, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 35% at December 31, 2023 and 2022.

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, 2023 and 2022 was \$240,633. The District was in compliance with the requirements of the Equipment Reserve Fund as of December 31, 2023 and 2022.

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, 2023 and 2022, the District received state assistance of \$22,960 and \$20,334, 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, 2023 and 2022

NOTE 7: PROPERTY, PLANT, AND EQUIPMENT

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

2023					
	<u>December 31, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>December 31, 2023</u>
9 hole golf course	\$ 1,088,963	\$ -	\$ (695)	\$ -	\$ 1,088,268
18 hole golf course	1,398,888	11,200	-	-	1,410,088
19th hole restaurant	67,977	-	-	-	67,977
Buildings	4,329,621	15,579	(4,875)	-	4,340,325
Fire department equipment	1,130,559	289,085	-	-	1,419,644
Land	1,499,173	-	-	-	1,499,173
Public works	698,828	194,947	(61,940)	-	831,835
Recreational facilities	1,297,322	28,072	-	10,500	1,335,894
Resource management	89,007	-	-	-	89,007
Sewer system	18,375,631	-	-	-	18,375,631
Streets and roads	9,658,919	-	(716,580)	-	8,942,339
Water system	8,224,230	-	(532,830)	-	7,691,400
Right-of-use assets	301,066	-	-	-	301,066
Construction in progress	149,003	359,737	-	(10,500)	498,240
Total	48,309,187	898,620	(1,316,920)	-	47,890,887
Accumulated amortization	(37,700)	(84,624)	-	-	(122,324)
Accumulated depreciation	<u>(31,959,736)</u>	<u>(1,334,830)</u>	<u>1,136,630</u>	<u>-</u>	<u>(32,157,936)</u>
	<u>\$ 16,311,751</u>	<u>\$ (520,834)</u>	<u>\$ (180,290)</u>	<u>\$ -</u>	<u>\$ 15,610,627</u>
2022					
	<u>December 31, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>December 31, 2022</u>
9 hole golf course	\$ 1,104,849	\$ -	\$ (15,886)	\$ -	\$ 1,088,963
18 hole golf course	1,512,022	10,468	(123,602)	-	1,398,888
19th hole restaurant	67,977	-	-	-	67,977
Buildings	4,388,498	16,330	(75,207)	-	4,329,621
Fire department equipment	1,117,192	51,932	(38,565)	-	1,130,559
Land	1,499,173	-	-	-	1,499,173
Public works	1,042,183	-	(343,355)	-	698,828
Recreational facilities	1,270,270	27,052	-	-	1,297,322
Resource management	89,007	-	-	-	89,007
Sewer system	18,360,273	15,358	-	-	18,375,631
Streets and roads	9,412,397	246,522	-	-	9,658,919
Water system	8,133,077	91,153	-	-	8,224,230
Right-of-use assets	-	301,066	-	-	301,066
Construction in progress	-	149,003	-	-	149,003
Total	47,996,918	908,884	(596,615)	-	48,309,187
Accumulated amortization	-	(37,700)	-	-	(37,700)
Accumulated depreciation	<u>(31,230,936)</u>	<u>(1,293,420)</u>	<u>564,620</u>	<u>-</u>	<u>(31,959,736)</u>
	<u>\$ 16,765,982</u>	<u>\$ (422,236)</u>	<u>\$ (31,995)</u>	<u>\$ -</u>	<u>\$ 16,311,751</u>

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

NOTE 8: 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 9: 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 \$46,401 and \$44,529, respectively, during the years ended December 31, 2023 and 2022 on participant salaries of \$959,715 and \$912,719, respectively.

NOTE 10: BONDS PAYABLE

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Servicing Fee</u>	<u>Total</u>
2024	\$ 296,101	\$ 44,415	\$ 25,380	\$ 365,896
2025	304,299	39,198	22,399	365,896
2026	312,725	33,836	19,335	365,896
2027	321,384	28,326	16,186	365,896
2028	330,283	22,663	12,950	365,896
2029-2031	1,042,054	32,421	18,526	1,093,001
	\$ 2,606,846	\$ 200,859	\$ 114,776	\$ 2,922,481

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

A summary of changes in bonds payable follows:

	December 31, 2022	Additions	Retirements	December 31, 2023	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	\$ 2,893,930	\$ -	\$ (287,084)	\$ 2,606,846	\$ 296,101
	December 31, 2021	Additions	Retirements	December 31, 2022	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	\$ 3,175,330	\$ -	\$ (281,400)	\$ 2,893,930	\$ 288,123

NOTE 11: CAPITAL LEASES

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 \$149,443 and \$117,419 as of December 31, 2023 and 2022, respectively. Amortization of the assets under capital lease is included in depreciation expense. See Note 7.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2023, are as follows:

2023	\$ 15,452
Less amount representing interest	290
Present value of minimum lease payments	\$ 15,162

NOTE 12: LEASE LIABILITY AND RIGHT-OF-USE ASSETS

The District leases golf carts under a noncancelable operating lease. Rental expense under this operating lease was \$-0- and \$20,145 for the years ended December 31, 2023 and 2022, respectively. The lease expired in May 2022.

On June 1, 2022, the District entered into a lease for 65 golf carts for a term of 76 months. The lease agreement calls for seasonal payments of \$5,000 each for seven months per year. An initial lease liability of \$217,090 was recorded. As of December 31, 2023 and 2022, the value of the right-of-use asset was \$127,422 and \$184,054 with accumulated amortization of \$89,667 and \$33,035, respectively.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

On October 13, 2022, the District entered into a lease agreement for a backhoe loader for a term of 36 months. The lease agreement calls for monthly payments of \$2,415. An initial lease liability of \$83,976 was recorded. As of December 31, 2023 and 2022, the value of the right-of-use asset is \$51,319 and \$79,311 with accumulated amortization of \$32,657 and \$4,665, respectively.

The future minimum lease payments and the present value of the net minimum lease payments as of December 31, 2023, are as follows:

2024	\$	88,981
2025		84,150
2026		<u>15,000</u>
Total minimum lease payments		188,131
Less amount representing interest		<u>8,477</u>
	\$	<u><u>179,654</u></u>

NOTE 13: MARINA LEASES

During the year ended December 31, 2000, the District entered into a lease with the United States Secretary of the Army for a marina on Table Rock Lake. 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, 2023 and 2022, the rate was 2.3% of gross receipts. The District paid approximately \$4,000 under this lease during the years ended December 31, 2023 and 2022.

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 2023, a new contract for management of the marina was entered into between the District and KP's Dock Service. The District will receive 80% of the yearly boat slip rentals (less excise taxes and pesticide services) and 3% of all gross sales that occur in connection with the operating of the marina. During the years ended December 31, 2023 and 2022, rental payments received by the District under this sublease totaled approximately \$188,566 and \$217,000, 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, 2023 and 2022

NOTE 14: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the water and sewer funds for the years ended December 31, 2022 and 2021, is as follows:

	<u>2023</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues	\$ 714,224	\$ 476,150
Operating expenses	(500,380)	(333,587)
Depreciation	(367,839)	(294,447)
Nonoperating expenses - interest	<u>-</u>	<u>(85,188)</u>
Change in net position	<u>\$ (153,995)</u>	<u>\$ (237,072)</u>
Property, plant and equipment:		
Additions	\$ -	\$ -
Disposals	(532,830)	-
Total assets and deferred outflows of resources	\$ 1,013,083	\$ 4,235,694
Bonds and other long-term liabilities payable from operating revenues	\$ -	\$ 2,606,846
Total net position	\$ 1,013,083	\$ 1,628,848

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

	<u>2022</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues	\$ 585,044	\$ 388,585
Operating expenses	(504,069)	(354,355)
Depreciation	(295,070)	(441,048)
Nonoperating expenses - interest	<u>-</u>	<u>(88,201)</u>
Change in net position	<u>\$ (214,095)</u>	<u>\$ (495,019)</u>
Property, plant and equipment:		
Additions	\$ 91,153	\$ 15,358
Disposals	-	-
Total assets and deferred outflows of resources	\$ 1,167,078	\$ 4,759,850
Bonds and other long-term liabilities payable from operating revenues	\$ -	\$ 2,893,930
Total net position	\$ 1,167,078	\$ 1,865,920

NOTE 15: RETIREMENT PLANS

**Local Police and Fire Retirement System
Plan Description**

The Arkansas Local Police and Fire Retirement System (“LOPFI”) is a statewide cost-sharing multiple-employer defined benefit pension plan administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas 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, 2023 and 2022

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 2023 calendar year was computed to be 24.00% of active member payroll. The District's applicable rate for 2023 is 24.00% 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, 2023 valuation and measurement date for paid firemen, there were 4 retired members covered by benefit terms and 3 active members. During the years ended December 31, 2023 and 2022, the District contributed \$8.09 and \$5.90, respectively, per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. At the December 31, 2022 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, 2023, 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, 2023, 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, 2023 and 2022, the District reported net pension liability for their proportionate share of the net pension liability of each plan as follows:

	<u>2023</u>	<u>2022</u>
Paid fire	\$ 442,628	\$ 404,932
Volunteer fire	97,221	60,949
	<u>\$ 539,849</u>	<u>\$ 465,881</u>

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

For the years ended December 31, 2023 and 2022, the District recognized pension expense of \$74,863 and \$81,907 related to this plan, respectively. At December 31, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources as of December 31, 2023 and 2022 (valuation dates), related to pensions from the following sources:

2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 62,519	\$ -
Changes of assumptions	1,666	25,144
Changes in proportion and differences between employer contributions and proportionate share	77,898	7,724
Net difference between projected and actual earnings on pension plan investments	49,444	-
	\$ 191,527	\$ 32,868
2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,859	\$ 38
Changes of assumptions	4,415	37,151
Changes in proportion and differences between employer contributions and proportionate share	41,264	16,491
Net difference between projected and actual earnings on pension plan investments	111,904	-
	\$ 192,442	\$ 53,680

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
2024	\$ 51,545	\$ 9,483	\$ 61,028
2025	51,811	14,622	66,433
2026	44,712	7,604	52,316
2027	(17,448)	(3,670)	(21,118)

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

Actuarial Assumptions

The total pension liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Paid Service Assumptions

Wage Inflation	3.00%
Price Inflation	2.25%
Salary Increases	3.50% to 18.00%, including inflation
Investment rate of return	7.25%, as adopted by the Board
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-year smoothed market; 20% corridor

Volunteer Service Assumptions

Inflation	2.25%
Investment rate of return	7.25%, as adopted by the Board
Actuarial Cost Method	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 2021 valuation pursuant to an experience study of the period 2017-2020.

Mortality

The healthy post-retirement tables used were the Pub-2010 Amount-Weighted General Below Median Income Healthy Retiree tables, set forward on year for males, and two years for females. The disability post-retirement mortality tables used were the Pub-2010 Amount-Weighted General Disabled Retiree tables for males and females. The death-in-service mortality tables used were the Pub-2010 Amount-Weighted General Below Median Income Employee tables for males and females. Fifty percent of deaths-in-service were assumed to be duty related. The tables were adjusted for fully generational mortality improvements using Scale MP-2020.

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.

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

For each major asset class that is included in the pension plan's target asset allocation as of December 31, 2023, 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
U.S. Stock - Large Cap	21%	5.62%	1.18%
U.S. Stock - Small Cap	21%	5.86%	1.23%
International Equity	9%	6.92%	0.62%
Emerging Markets	9%	8.95%	0.81%
U.S. Corporate Bonds	25%	2.29%	0.57%
Real Estate	5%	3.61%	0.18%
Private Equity	10%	9.48%	0.95%
Total	100%		5.54%
Expected Inflation			2.25%
Total Return			7.79%

Discount Rate

A single discount rate of 7.25% 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 7.25%. 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 7.25%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

Sensitivity of Discount Rate

	1% Lower 6.25%	Discount Rate 7.25%	1% Higher 8.25%
Paid fire	\$ 693,819	\$ 442,628	\$ 239,452
Volunteer fire	153,252	97,221	52,326

Holiday Island Suburban Improvement District #1

Notes to Financial Statements December 31, 2023 and 2022

NOTE 16: INTERLOCAL AGREEMENT

The City of Holiday Island, Arkansas and Holiday Island Suburban Improvement District entered into an agreement to establish a municipal volunteer combination fire department to be known as the "Holiday Island Volunteer Fire Department." The agreement was entered into under the authority and pursuant to the Constitution and laws of the State of Arkansas, including Arkansas Code of 1987 Annotated, Title 25, Chapter 20, Subchapter 1, the Interlocal Cooperation Act. The agreement states the City of Holiday Island shall pay the District \$46,000 annually for the first year beginning January 1, 2021 and ending December 31, 2021 and \$50,000 annually thereafter unless adjusted by ordinance. The agreement establishes a new joint board that shall consist of the District Manager of the District and the Mayor of Holiday Island to oversee the performance of this agreement. During the terms of this agreement, the District shall provide all firefighting facilities, personnel, equipment and apparatus deemed necessary for fulfilling its obligations under this agreement.

On December 31, 2023, the City of Holiday Island and the District entered into another interlocal agreement to provide fire protection and other services to the City of Holiday Island. The terms of the agreement are similar to those stated above. The City of Holiday Island will pay the District \$50,000 for the year beginning January 1, 2024 and ending December 31, 2024, and annually thereafter unless the amount is adjusted by ordinance.

NOTE 17: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 23, 2024, the date that the financial statements were available to be issued.

During 2024, the District purchased a generator and a two wheel drive truckster for \$121,000.

In 2024, the District also paid \$20,000 to a Commissioner for Interim District Manager expense. The Commissioner served as Interim District Manager from January 8, 2024 to February 15, 2024.

In April 2024, the District hired a new District Manager.

Beginning December 29, 2023, the District is also involved in litigation regarding the billing, collecting and rate structure of the assessments. The ultimate outcome of this lawsuit is unknown.

Required Supplementary Information

Holiday Island Suburban Improvement District #1

Schedules of the District's Proportionate Share of the Net Pension Liability December 31, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016 and 2015

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Paid Fire									
Proportion of the net pension liability	0.04%	0.04%	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%
Proportionate share of the net pension liability	\$ 442,628	\$ 404,932	\$ 165,960	\$ 195,576	\$ 215,140	\$ 205,485	\$ 137,235	\$ 152,937	\$ 104,018
Covered - employee payroll	\$ 167,103	\$ 228,013	\$ 127,287	\$ 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	264.88%	177.59%	130.38%	186.27%	161.72%	186.58%	129.96%	176.19%	101.84%
Plan's fiduciary net position	\$ 442,628	\$ 404,932	\$ 165,960	\$ 195,576	\$ 215,140	\$ 205,485	\$ 137,235	\$ 152,937	\$ 104,018
Plan's fiduciary net position as a percentage of the total pension liability	73.50%	69.20%	84.75%	77.79%	73.21%	73.21%	71.48%	72.87%	72.92%
Volunteer Fire									
Proportion of the net pension liability	0.02%	0.01%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Proportionate share of the net pension liability	\$ 97,221	\$ 60,949	\$ 43,944	\$ 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	N/A	N/A	N/A
Plan's fiduciary net position	\$ 97,221	\$ 60,949	\$ 43,944	\$ 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	72.07%	66.19%	82.87%	75.30%	69.21%	69.21%	64.71%	64.29%	62.24%

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, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016 and 2015

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Paid Fire									
Contractually required contribution	\$ 48,319	\$ 36,779	\$ 29,912	\$ 25,161	\$ 23,911	\$ 22,672	\$ 14,922	\$ 10,207	\$ 17,051
Contributions in relation to the contractually required contribution	\$ (48,319)	\$ (36,779)	\$ (29,912)	\$ (25,161)	\$ (23,911)	\$ (22,672)	\$ (14,922)	\$ (10,207)	\$ (17,051)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 167,103	\$ 228,013	\$ 127,287	\$ 104,996	\$ 133,036	\$ 110,135	\$ 105,595	\$ 86,800	\$ 102,140
Contributions as a percentage of covered-employee payroll	28.92%	16.13%	23.50%	23.96%	17.97%	20.59%	14.13%	11.76%	16.69%
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Volunteer Fire									
Contractually required contribution	\$ 3,288	\$ 3,072	\$ 2,928	\$ 9,204	\$ 3,512	\$ 3,416	\$ 2,221	\$ 2,319	\$ 2,335
Contributions in relation to the contractually required contribution	\$ (3,288)	\$ (3,072)	\$ (2,928)	\$ (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	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	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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 23, 2024.

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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas
August 23, 2024

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, 2023

OPERATING REVENUES

Charges for services		\$ 1,190,374
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OPERATING EXPENSES

Operations and maintenance	\$ 542,567	
Salaries and related benefits and taxes	<u>291,400</u>	

833,967

Net operating income (loss) before depreciation		356,407
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Less: depreciation		<u>662,286</u>
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NET OPERATING (LOSS)		(305,879)
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INTEREST EXPENSE		<u>(85,188)</u>
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NET (LOSS)		(391,067)
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NET POSITION, BEGINNING OF YEAR		<u>3,032,998</u>
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NET POSITION, END OF YEAR		<u><u>\$ 2,641,931</u></u>
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See Independent Auditor's Report.

Holiday Island Suburban Improvement District #1

Miscellaneous Supplementary Information December 31, 2023

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, 2023:

Water Services:

Minimum charge for first 1,500 gallons	\$	19.10
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, 2023 averaged 1,778 per month.
3. Total gallons billed to water/sewer customers during the year ended December 31, 2023 amounted to 68,830,584.
4. Total dollars billed to water/sewer customers during the year ended December 31, 2023 amounted to \$1,190,374, which includes charges for service and debt assessments.
5. There is 209% 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, 2023, 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, 2023 was \$1,585,342. At December 31, 2023, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2023 was \$60,973.

See Independent Auditor's Report.

Holiday Island Suburban Improvement District #1

Miscellaneous Supplementary Information December 31, 2023

8. A schedule of insurance policies in effect at December 31, 2023 is as follows:

<u>Insurance Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>
Star Surplus Lines	Commercial Property, Equipment and Other	\$18,738,235	5-10-24
Star Surplus Lines	Earthquake	\$1,000,000	5-10-24
Star Surplus Lines	Flood	\$1,000,000	5-10-24
RLI Insurance	Inland Marine	\$1,933,688	5-10-24
Arkansas Municipal Vehicle Program	Vehicles Liability	\$25,000/\$50,000	8-25-24
	Physical Damage	\$1,737,346	8-25-24
Travelers	General Liability	\$1,000,000	5-10-24
Travelers	Employee Benefit, Employee Practices	\$2,000,000	5-10-24
Travelers	Liquor Liability	\$1,000,000	5-10-24
Travelers	Public Entity Management	\$1,000,000	5-10-24
Travelers	Crime	\$100,000	5-10-24
Philadelphia Insurance	Volunteer Accident	\$100,000	3-19-24

See Independent Auditor's Report.