HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1

GENERAL – PURPOSE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
DECEMBER 31, 2012 AND 2011
CONTENTS

Page

INDEPENDENT AUDITORS' REPORT 1

GENERAL - PURPOSE FINANCIAL STATEMENTS

Balance Sheets 4

Statements of Revenues, Expenses, and Changes in Retained Earnings 5

Statements of Cash Flows 6

Notes to General - Purpose Financial Statements 7

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF GENERAL - PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 22

SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenses, and Changes in Retained Earnings – Water and Sewer Operations Only 25

Miscellaneous Supplementary Information 26

Statement of Inflows and Outflows of the District Bond Fund and District Bond Improvement Fund 28

BEALL BARCLAY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying general – purpose financial statements and the aggregate remaining fund information of **Holiday Island Suburban Improvement District #1**, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise **Holiday Island Suburban Improvement District #1's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Holiday Island Suburban Improvement District #1's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, **Holiday Island Suburban Improvement District #1** has elected not to implement the reporting model required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34 as of and for the years ended December 31, 2012 and 2011. The effects of this departure from accounting principles generally accepted in the United States of America have not been determined.

Qualified Opinion

In our opinion, except for the effects, if any, of not implementing GASB Statement No. 34, as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of **Holiday Island Suburban Improvement District #1** as of December 31, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise **Holiday Island Suburban Improvement District #1's** general - purpose financial statements. The accompanying supplementary information on pages 25 through 27 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. Furthermore, the supplementary information on page 28 is not a required part of the basic financial statements but was requested by the District Manager. 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 2012 financial statements as a whole.

Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated August 14, 2013 on our consideration of **Holiday Island Suburban Improvement District #1'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* and should be considered in assessing the results of our audit.

Beall Barclay & Co. PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 14, 2013

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 2,270,239	$ 1,763,978
Cash and cash equivalents - restricted	60,966	60,869
Certificates of deposit - designated	1,267,718	1,246,505
Certificates of deposit - undesignated	-	10,959
Assessments receivable, net	116,547	213,133
Accounts receivable	58,843	73,314
Accrued interest receivable	-	1,564
Inventory - pro shop	52,149	64,244
Prepaid expenses	48,861	49,111
Property, plant, and equipment, net	21,899,712	22,524,851
Total Assets	$ 25,775,035	$ 26,008,528
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 156,652	$ 116,884
Bonds payable	5,381,965	5,581,859
Total Liabilities	5,538,617	5,698,743
FUND EQUITY		
Contributed capital - net of accumulated depreciation	1,404,573	1,428,789
Retained earnings		
Reserved for debt service	872,708	810,694
Designated	1,267,718	1,246,505
Undesignated	16,691,419	16,823,797
	18,831,845	18,880,996
Total Fund Equity	20,236,418	20,309,785
Total Liabilities and Fund Equity	$ 25,775,035	$ 26,008,528

See Independent Auditors' Report and Notes to General - Purpose Financial Statements.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Assessments, net	$ 1,559,728	$ 1,389,712
Water and sewer	701,572	673,661
Fees, sales, and rental	656,060	633,494
Debt service assessments	424,149	428,254
Activity cards	97,605	128,380
Other	301,067	206,861
	3,740,181	3,460,362
OPERATING EXPENSES		
Water and sewer	493,412	513,923
Streets and roads	412,615	495,018
Fire and security protection	259,535	289,859
Recreation	118,280	112,247
18 hole golf course	323,993	345,376
9 hole golf course	76,087	82,035
Clubhouse, restaurant, marina and pro shop	371,566	371,387
General and administrative	587,986	674,580
	2,643,474	2,884,425
Net operating income before depreciation	1,096,707	575,937
Less: depreciation	(1,013,554)	(1,022,933)
Net operating income (loss)	83,153	(446,996)
OTHER NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of property and equipment	2,131	3,400
Interest income	18,224	22,246
Interest expense	(176,875)	(119,255)
Total other nonoperating revenues (expenses)	(156,520)	(93,609)
Net (loss)	(73,367)	(540,605)
Retained earnings - beginning of year	18,880,996	19,397,385
Less: depreciation on fixed assets acquired by contributed capital	(24,216)	(24,216)
Retained earnings - end of year	$ 18,831,845	$ 18,880,996

See Independent Auditors' Report and Notes to General - Purpose Financial Statements.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income (loss)	$ 83,153	$ (446,996)
Adjustments to reconcile net operating income (loss) to net cash from operating activities:		
Depreciation	1,013,554	1,022,933
In-kind contribution	(28,659)	-
Allowance for uncollectible assessments	396,927	(151,179)
Change in:		
Assessments receivable, net	(300,341)	315,941
Accounts receivable	14,471	4,962
Inventory - pro shop	12,095	4,719
Prepaid expenses	250	5,388
Deposits	-	(509)
Accounts payable and accrued expenses	13,991	(41,906)
Total Adjustments	1,122,288	1,160,349
Net Cash From Operating Activities	1,205,441	713,353
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(213,353)	-
Proceeds from issuance of bonds	13,459	257,064
Interest paid	(151,098)	(149,541)
Net Cash From (Used For) Capital and Related Financing Activities	(350,992)	107,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	2,131	3,400
Acquisition of property, plant, and equipment	(359,756)	(267,531)
Change in certificates of deposit	(10,254)	(10,959)
Interest received	19,788	20,682
Net Cash (Used For) Investing Activities	(348,091)	(254,408)
NET CHANGE IN CASH AND CASH EQUIVALENTS	506,358	566,468
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,824,847	1,258,379
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,331,205	$ 1,824,847
CASH AND CASH EQUIVALENTS	$ 2,270,239	$ 1,763,978
RESTRICTED CASH AND CASH EQUIVALENTS	60,966	60,869
	$ 2,331,205	$ 1,824,847

See Independent Auditors' Report and Notes to General - Purpose Financial Statements.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
NOTES TO GENERAL - PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Holiday Island Suburban Improvement District #1 ("the District") is a public corporation organized July 2, 1970 under the Arkansas Suburban Improvement District Law to provide Holiday Island, Arkansas, with a public road system, waterworks system, sewage system, fire protection services and facilities, and recreational facilities.

The general - purpose financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units with the exception of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 34 as discussed below. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) of accounting principles for pronouncements issues on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District does not apply FASB Codification of accounting principles for pronouncements whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

The more significant of the District's accounting policies are described below.

Reporting Entity
For financial reporting purposes, in conformity with GASB Statement No. 14 "*The Financial Reporting Entity*," the District includes all funds over which the District Commissioners exercise financial accountability. Financial accountability as defined by GASB Statement No. 14 was determined based on the District's ability to impose its will on operations, to select the governing authority, and on the District Commissioners' potential to provide financial benefits or to impose financial burdens on the District.

Fund Types
The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

The various funds are grouped in the general - purpose financial statements into one fund type as follows:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Proprietary Fund Types

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents. At December 31, 2012 and 2011, the District had no cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash consists of amounts held in a trust account for the purpose of debt service. At December 31, 2012 and 2011, the District had a restricted cash balance of $60,966 and $60,869, respectively.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheets. Fund equity is segregated into contributed capital and retained earnings components.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Inventory – Pro Shop

Inventory consists of merchandise held for sale and is stated at the lower of cost or market, on a first in, first out basis. Merchandise held for sale primarily consists of golf-related items.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GASB Statement No. 34

GASB issued GASB Statement No. 34, which became effective for the District for the year ended December 31, 2004. This statement requires governments to provide a Management Discussion and Analysis with their financial statements as well as change the presentation of certain items in the financial statements to a new reporting model. The District has elected not to implement GASB Statement No. 34. The effects of this departure from accounting principles generally accepted in the United States of America have not been determined.

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 general - purpose 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 $5,627,000 and $5,591,000 at December 31, 2012 and 2011, respectively. During the year ended December 31, 2012, the District fire department received a contribution of a truck with an estimated fair market value of $28,659.

The estimated useful lives of assets are as follows:

ASSETS	USEFUL LIVES IN YEARS
9 hole golf course	7 - 50
18 hole golf course	5 - 50
19th hole restaurant	15 - 20
Buildings	10 - 50
Fire department equipment	5 - 20
Public works	5 - 20
Recreational facilities	5 - 20
Resource management	3 - 10
Sewer system	10 - 50
Streets and roads	10 - 75
Water system	3 - 50

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Current Accounting Developments

In March 2012, the GASB issued Statement Number 65 (GASB 65), *Items Previously Reported As Assets and Liabilities*, effective for periods beginning after December 15, 2012. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement Number 66 (GASB 66), *Technical Corrections – 2012*, effective for periods beginning after December 15, 2012. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB 62.

In June 2012, the GASB issued Statement Number 67 (GASB 67), *Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25*, effective for fiscal years beginning after June 15, 2014. GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

In June 2012, the GASB issued Statement Number 68 (GASB 68), *Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

Assessments Receivable and Uncollectible Accounts

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 $658,322 and $261,395 as of December 31, 2012 and 2011, respectively. (See Note 9.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assessments
Assessments are recorded as revenues in the year levied. The assessments are levied on January 1 and are due by October 10 for the current year.

Accounts Receivable
Accounts receivable relate to water and sewer billings and related debt service charges. Based on historical data, over 95% of water and sewer billings are collected within 60 days, thus an allowance for uncollectible accounts is not considered necessary. In the event accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized. Past-due status is based on contractual terms. Past-due accounts are charged interest monthly. The interest rate is based on the federal discount rate. A past-due account continues to draw interest charges until it is either paid or written off.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

NOTE 2: ASSESSMENTS

The District's Board of Commissioners approves the amount of the yearly assessment of property owners based on the zoning. This assessment, due October 10th, reflects the projected cash requirements of the District, taking into consideration the revenues received through the sale of water and sewer services and rental and interest income.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

State law generally requires that District funds be deposited in federally insured banks located in the State of Arkansas. The District deposits may be in the form of checking accounts, savings accounts, and time deposits. District funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest of which are fully guaranteed by the United States of America.

Deposits include funds invested in commercial money market accounts and certificates of deposit. These funds bear interest rates ranging from 0.20% to 0.62% at December 31, 2012 and from 0.20% to 1.00% at December 31, 2011.

The amounts of deposits are displayed on the Balance Sheets as "Cash and Cash Equivalents" and "Certificates of deposit." Also included in "Cash and Cash Equivalents" on the Balance Sheets is petty cash amounting to $1,350 at December 31, 2012 and 2011.

At December 31, 2012, bank balances insured and collateralized with securities held by the bank in the District's name are $250,000 and $3,342,000, respectively.

NOTE 4: STATE ASSISTANCE

During 2012 and 2011, the District received State assistance of $16,129 and $13,355, 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 Retained Earnings.

NOTE 5: FUND EQUITY

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 6: DEFERRED COMPENSATION PLAN

The District sponsors a deferred compensation plan under Internal Revenue Code Section 457 covering eligible employees who have completed three months of continuous service. During 2005, the District restated the plan. Prior to September 1, 2005, the District matched 50% of employee contributions up to 2% of the employee's compensation. Effective September 1, 2005, the District matches 100% of employee contributions up to 5% of the employee's compensation. The cost of such contributions by the District was $23,841 and $26,759, respectively, during the years ended December 31, 2012 and 2011 on salaries of participants of $476,824 and $543,522, respectively.

NOTE 7: CERTIFICATES OF DEPOSIT – DESIGNATED

The District's Commissioners have designated certificates of deposits for the following reserve funds:

Undesignated Reserve Fund

The Undesignated Reserve Fund was approved by the Board of Commissioners of Holiday Island during 2003. The purpose of the Undesignated Reserve Fund is to secure and maintain investment-grade credit ratings, generate interest income, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures or to revenue shortfalls. The balance in the Undesignated Reserve Fund shall not be less than 35 percent and no more that 45 percent of operating expenditures. It shall not be used to fund operating expenditures in the adopted budget. The balance at December 31, 2012 and 2011 was $1,167,718 and $1,078,917, respectively. The Undesignated Reserve Fund as a percentage of operating expenditures was 44% and 37% at December 31, 2012 and 2011, respectively.

Equipment Reserve Fund

The Equipment Reserve Fund was approved by the Board of Commissioners of Holiday Island during 2003. It will be maintained in an amount adequate to finance the scheduled replacement of vehicles and equipment. The Equipment Reserve Fund will, at the end of each fiscal year, have a minimum balance of $100,000, or 5 percent of the book value of the District's vehicle and equipment inventory, whichever is greater. The depreciation amount assigned to the vehicle and equipment inventory shall be budgeted annually and that amount transferred to the Equipment Reserve Fund. During 2005, the regulation that created the equipment reserve fund was amended to clarify the equipment and vehicles from which the reserve fund is calculated should be those vehicles and equipment placed in service since 2000. During 2011, the regulation was again amended to allow the Board of Commissioners to elect to suspend the transfer of annual depreciation of vehicles and equipment placed in service since 2000 to that account in the event no equipment reserve purchases are budgeted for the fiscal year. The balance at December 31, 2012 and 2011 was $100,000, and $167,588, respectively.

NOTE 8: OPERATING LEASES

The District leases golf carts under a noncancelable operating lease. The lease expires in 2014. Minimum lease payments under the operating lease totals $27,108 each year for the next two years for a total commitment of $54,216.

NOTE 9: CONCENTRATION OF CREDIT RISK

The District provides Holiday Island, Arkansas with a public road system, waterworks system, sewage system, fire protection facilities, and recreational facilities. The District's revenues are received, and its receivables are due, primarily from the property owners of Holiday Island, Arkansas.

At December 31, 2012, approximately $562,000 or 73%, of the District's gross assessments receivable balance was due from two companies. Approximately $390,000 was due from a developer and the remaining $172,000 is due from a timeshare within the District. These companies are contesting the amount of assessments charged and there is ongoing litigation related to these amounts (See Note 10). District management has fully allowed for these amounts as of December 31, 2012.

At December 31, 2011, approximately $315,000 or 66% of the District's gross assessments receivable balance was due from the same two companies. At that time, only the timeshare was contesting the assessments. Accordingly, District management had allowed $190,000 for the full amount of the receivable from the timeshare and $31,250 or approximately 25% of the remaining $125,000.

NOTE 10: LITIGATION

On November 30, 2011, Table Rock Landing Owners Association, Inc. (TRL), a non-profit corporation operating timeshares within the District, filed a complaint in the Circuit Court of Carroll County, Arkansas, Western district, alleging that the District has unlawfully charged TRL excessive time-share assessments since 1990. TRL claims that assessments charged against its units exceeded regular R-1 assessments, which they contend is contrary to Arkansas law. TRL is seeking monetary damages in the amount $1,873,500, which is the total of all alleged excessive assessments charged since 1990. There is no insurance to cover potential damages awarded. TRL is also requesting that the District be ordered to promptly assess TRL units at the same rate as the other R-1 units.

On December 20, 2011, the District filed a motion to dismiss, in which TRL has submitted its response with an amended complaint dated February 7, 2012. The District believes the assessments were paid voluntarily. Additionally, the time to contest a challenge of any levy of taxes paid is within thirty days of enactment of the levy by the board of commissioners and TRL failed to do so. Subsequent amended complaints have been filed that contest the 2011 reassessment of benefits (for the 2012 year) filed by the District, as they relate to the timeshares and alleging that the District has illegally engaged in zoning in the calculation of the 2011 assessment of benefits, has charged timeshare owners excessive fees for amenities, has retaliated against timeshare owners and has not permitted timeshare owners to vote in elections for board of commissioners as prescribed by state law. The amended complaints seek an additional $3,988 for alleged excessive golf fees and that punitive damages also to be assessed against the District.

NOTE 10: LITIGATION – CONTINUED

In January 2013, another amendment was filed contesting the tax levied in December 2012 on the timeshares for the 2013 year.

While the District believes it has a strong case and intends to contest the case vigorously, it is unsure of the outcome and is unable to estimate any potential range of loss at this time. Accordingly, no provision for any potential loss has been made in the accompanying general-purpose financial statements.

On August 8, 2012, David Bischoff, a resident of Holiday Island Arkansas, filed a complaint in the Circuit Court of Carroll County, Arkansas, Western district, contesting the 2011 assessment of benefits, alleging the District violated statutorily required notice procedures for assessing properties and should be required to return to the assessment of benefits in place prior to the 2011 assessment of benefits. At this time a hearing has not been set pending appointment of a special judge and due to the lack of case law regarding the issues raised, the District is unable to estimate any possible range of loss at this time. Accordingly, no provision for any potential loss has been made in the accompanying general-purpose financial statements.

The District is involved in other various claims and lawsuits arising in the normal course of business. Management believes that any financial responsibility that may be incurred in the settlement of such claims and lawsuits will not have an adverse effect on the District's financial position.

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.

NOTE 11: BONDS PAYABLE – CONTINUED

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

	Principal	Interest	Servicing Fee	Total
2013	$ 219,261	$ 93,313	$ 53,322	$ 365,896
2014	225,331	89,451	51,114	365,896
2015	231,571	85,480	48,845	365,896
2016	237,982	81,400	46,514	365,896
2017	244,572	77,206	44,118	365,896
2018 – 2022	1,328,269	318,952	182,259	1,829,480
2023 – 2027	1,522,632	195,267	111,581	1,829,480
2028 – 2031	1,372,347	55,084	31,476	1,458,907
	$ 5,381,965	$ 996,153	$ 569,229	$ 6,947,347

A summary of changes in bonds payable follows:

	December 31, 2011	Additions	Retirements	December 31, 2012	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	$ 5,581,859	$ 13,459	$ 213,353	$ 5,381,965	$ 219,261

	December 31, 2010	Additions	Retirements	December 31, 2011	Due within one year
Special Assessment and Sewer Revenue Bond, Series 2008	$ 5,324,795	$ 257,064	$ -	$ 5,581,859	$ 213,353

NOTE 12: LOCAL POLICE AND FIRE RETIREMENT SYSTEM

Plan Description

The District contributes to LOPFI, an agent multiple employer retirement system that acts as a common investment and administrative agent for municipalities in Arkansas.

LOPFI was established by Ark. Code Ann. 24-20-101 through 105, 205, 301/302, 401, 501/504, 601 through 616 and 24-11-810 and became operative January 1, 1983. Policemen and firemen employed January 1, 1983 or later are automatically covered by LOPFI.

Normal retirement age under the plan is 55 with 20 years of credited service, or 60 with less than 20, but at least 5 years of credited service or any age for a member with 20 or more years of credited service. The normal retirement benefit, paid on a monthly basis, is determined based upon (1) the participant's amount and type of credited service, (2) whether or not the participant's paid service is covered by social security and (3) the participant's final average pay.

NOTE 12: LOCAL POLICE AND FIRE RETIREMENT SYSTEM – CONTINUED

An early retirement option, with reduced benefits, is available to participants attaining the age of 50 with 20 years of credited service. A participant who terminates employment prior to attaining early retirement age, but has completed ten or more years of credited service, may receive future benefits under the plan if the participant does not withdraw the participant's accumulated contributions and lives to the participant's annuity starting date. The plan also provides for disability and survivor benefits.

LOPFI issues a financial report that includes financial statements and all required supplementary information. That report may be obtained by writing Local Police and Fire Retirement System, One Union National Plaza, 124 West Capitol, Suite 1750, Little Rock, Arkansas 72201 or calling 1-501-682-1745.

Funding Policy

Active firefighters who do not contribute to social security are required to contribute 8.5% of their annual covered salary. The District contributes the remaining amounts necessary to finance its employees' participation; the rate was 14.59% and 13.59% of annual covered payroll for the years ended December 31, 2012 and 2011, respectively. For the calendar year ended December 31, 2013, the District's contribution rate is 15.59%. During the years ended December 31, 2012 and 2011, the District contributed $5.00 and $4.20, respectively, per month for volunteer firefighters. Volunteer firefighters are not required to contribute to the plan. For the calendar year ended December 31, 2013, the District is required to contribute $5.15 per member per month. The contribution requirements of plan members and the District are established and may be amended by the LOPFI Board of Trustees.

Annual Pension Cost – Volunteer Firemen

For the years ended December 31, 2012 and 2011, the District's annual pension cost of $5,829 and $5,370, respectively, for LOPFI was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2009 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions effective for the 2011 valuation included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increases of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 0% to 6% per year, attributable to seniority/merit, (d) the assumption that benefits will increase 3% per year, and (e) pre- and post-retirement mortality based on the RP-2000 Combined Projected to 2007 Table, set forward two years for men. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as an increasing dollar amount. The amortization period as of December 31, 2011 was 11 years.

NOTE 12: LOCAL POLICE AND FIRE RETIREMENT SYSTEM – CONTINUED

Schedule of Funding Progress - Volunteer Firemen

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Accrued Liability (UAL) (a-b)	Funded Ratio (b/a)
2009	$ 20,531	$ 39,114	$ (18,583)	191%
2010	$ 20,863	$ 6,408	$ 14,455	31%
2011	$ 21,180	$ 5,283	$ 15,897	25%

An actuarial report was not available for the year ended December 31, 2012.

Plan Change – Paid Firemen

During the 2011 Session of the Arkansas General Assembly, Arkansas Code related to LOPFI was modified so that all LOPFI paid service employers would contribute based on a uniform rate for their members participating in LOPFI. An actuarial valuation is performed to determine the uniform rate. Individual employer valuations will no longer be prepared. Instead a compiled report is accessible via the LOPFI's website. The uniform rate for the 2013 calendar year was computed to be 18.01% of active member payroll. The District's applicable rate for 2013 is 15.59% of active member payroll. It is anticipated that the District's applicable rate will increase by the maximum allowed of 1% of active member payroll each year until all or most employers can be merged into a single uniform paid service employer rate.

Annual Pension Cost – Paid Firemen

For the years ended December 31, 2012 and 2011, the District's annual pension cost of $29,361 and $13,189 respectively, for LOPFI was equal to the District's required and actual contributions. The required contribution was determined as part of the December 31, 2011 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on present and future assets of 8% per year, compounded annually, (b) projected salary increases of 4% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 0.3% to 6% per year, attributable to seniority/merit, (d) pre- and post-retirement mortality based on the RP – 2000 Combined Projected to 2007 Table, set forward two years for men, and (e) annual compounded post-retirement increases of 3% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability (and assets in excess of actuarial accrued liability) is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of December 31, 2011 was 30 years.

NOTE 12: LOCAL POLICE AND FIRE RETIREMENT SYSTEM – CONTINUED

Schedule of Funding Progress - Paid Firemen – LOPFI and Local Plan Uniform Rate

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Accrued Liability (UAL) (a-b)	Funded Ratio (b/a)
2009	$ 1,379,093,412	$ 878,958,364	$ 500,135,048	64%
2010	$ 1,519,527,855	$ 982,154,992	$ 537,372,863	65%
2011	$ 1,654,156,087	$ 1,070,685,918	$ 583,470,169	65%

An actuarial report was not available for the year ended December 31, 2012.

Following is the three year funding information for LOPFI for the District:

Fiscal Year Ended December 31	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	12,105	100%	-
2011	13,189	100%	-
2012	29,361	100%	-

NOTE 13: MARINA LEASES

During the year ended December 31, 2000, the District entered into a lease with the United States Secretary of the Army for a marina on Table Rock Lake. The lease expires in 2019. Rental payments under the lease are calculated as a percentage of gross receipts of the marina, ranging from 2% to 4.6%. For the years ended December 31, 2012 and 2011, the rate was 2.2% of gross receipts. The District paid approximately $1,800 and $2,000 under this lease during the years ended December 31, 2012 and 2011, respectively.

During the year ended December 31, 2000, the District began subleasing the marina on Table Rock Lake to Marina Concessions, LLC (Marina Concessions). The lease expires December 31, 2014. Payments under the lease are as follows: $1 per year for rent, plus Marina Concessions can retain between 43% and 45% of all boat slip rental payments collected up to $75,000. The remaining amount is remitted to the District. During the years ended December 31, 2012 and 2011, rental payments received by the District under sublease totaled approximately $148,000 and $147,000, respectively, and are included in "Fees, sales, and rental" operating revenues in the Statements of Revenues, Expenses, and Changes in Retained Earnings, net of rental payments to the United States Secretary of the Army.

NOTE 14: PROPERTY, PLANT, AND EQUIPMENT

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

	January 1, 2011	Additions	Disposals
9 hole golf course	$ 1,170,629	$ -	$ -
18 hole golf course	1,156,233	-	-
19th hole restaurant	50,445	-	-
Buildings	4,027,717	-	-
Fire department equipment	995,354	-	-
Land	1,499,173	-	-
Public works	985,246	-	-
Recreational facilities	780,034	10,467	-
Resource management	120,111	-	-
Sewer system	17,782,304	257,064	-
Streets and roads	7,511,668	-	-
Water system	7,195,116	-	-
Total	43,274,030	267,531	-
Less:			
Accumulated depreciation	(19,993,777)	(1,022,933)	-
	$ 23,280,253	$ (755,402)	$ -

December 31, 2011	Additions	Disposals	December 31, 2012
$ 1,170,629	$ 4,788	$ (9,500)	$ 1,165,917
1,156,233	29,272	(112,742)	1,072,763
50,445	-	-	50,445
4,027,717	87,376	-	4,115,093
995,354	28,659	(13,363)	1,010,650
1,499,173	-	-	1,499,173
985,246	-	(7,816)	977,430
790,501	-	(10,349)	780,152
120,111	-	(53,402)	66,709
18,039,368	21,350	-	18,060,718
7,511,668	216,970	-	7,728,638
7,195,116	-	-	7,195,116
43,541,561	388,415	(207,172)	43,722,804
(21,016,710)	(1,013,554)	207,172	(21,823,092)
$ 22,524,851	$ (625,139)	$ -	$ 21,899,712

BEALL BARCLAY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF GENERAL - PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of **Holiday Island Suburban Improvement District #1** (the "District") as of and for the year ended December 31, 2012 and have issued our report thereon dated August 14, 2013. The report on the District's financial statements as of and for the year ended December 31, 2012 was qualified because the District elected not to implement GASB Statement No. 34, which is a departure from accounting principles generally accepted in the United States of America. We conducted our audit 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.

Internal Control Over Financial Reporting
Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America

Condition: As a part of the audit engagement, we assisted management in the preparation of the District's financial statements. Although management reviewed and approved the financial statements and related footnotes, management's current system of internal control lacks adequate controls to ensure the propriety, adequacy, completeness, and classification in the financial statements, including disclosures, prepared in accordance with the accrual basis method of accounting.

Criteria and Cause: Internal control over financial reporting includes management's controls over the preparation of financial statements and the related footnotes prepared in accordance with the accrual basis method of accounting. An auditor can assist in assembling or drafting the financial statements and related footnotes; however, an auditor cannot be part of District's internal control. Management must have the technical expertise and knowledge to ensure the propriety and completeness of the information in the financial statements, including disclosures in the related footnotes.

Effect: Under the current process, errors or omissions in the footnote disclosures to the consolidated financial statements might not be prevented or detected and corrected on a timely basis by the District's management.

Recommendation: We understand that management feels that its current controls over the preparation of financial statements are adequate and that implementing additional controls is not practical or feasible with District's current staff and resources. We recommend that management continue to evaluate the cost/benefit of improving internal control over the preparation of financial statements and the related disclosures and implement additional controls as considered necessary.

Proper Accounting for Various Transactions

Condition: In the process of performing our audit, we noted various accounts requiring material adjustments to be in conformity with accounting principles generally accepted in the United States of America.

Criteria and Cause: The proper recording of transactions is an integral part in maintaining accurate financial statements on the accrual basis of accounting. We consider the items below to be material adjustments.

- The allowance for doubtful accounts should be evaluated by management annually and adjusted as necessary. However, we noted that the allowance for doubtful accounts had not been adjusted for the current year.
- Bond prepayments held in trust by the bondholder should be recognized as restricted funds until the payments are applied. However, we noted that bond prepayments were recorded as principal and interest payments on the bond.

Effect: Under the current process, significant accounts making up the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Retained Earnings of the District, such as accounts receivable, restricted cash, long term debt, and expenses, could be materially misstated.

Recommendation: We recommend that management evaluate significant estimates such as the collectability of assessments and adjust the allowance accordingly during the year end closing of the books. Additionally, management should implement procedures to ensure that all required adjustments to accounts are made during the process of closing the books.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Commissioners, the Arkansas Natural Resources Commission, and the Arkansas Division of Legislative Audit and is not intended to be and should not be used by anyone other than these specified parties.

Beall Barclay & Co. PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Rogers, Arkansas
August 14, 2013

SUPPLEMENTARY INFORMATION

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - WATER AND SEWER OPERATIONS ONLY

YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES		
Charges for services		$ 701,572
OPERATING EXPENSES		
Miscellaneous	$ 6,344	
Operations and maintenance	281,802	
Salaries and related benefits and taxes	205,266	
		493,412
Net operating income before depreciation		208,160
Less: depreciation		(567,953)
NET (LOSS)		(359,793)
RETAINED EARNINGS, BEGINNING OF YEAR		8,766,630
RETAINED EARNINGS, END OF YEAR		$ 8,406,837

HOLIDAY ISLAND SUBURBAN
IMPROVEMENT DISTRICT #1
MISCELLANEOUS SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

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, 2012:

Water Services:

Minimum charge for first 1,500 gallons	$	8.10
Rate for next 28,500 gallons, per 1,000 gallons		4.70
Rate for 30,001 gallons and above, per 1,000 gallons		2.34

Sewer Services:

Minimum charge for first 1,500 gallons	$	7.50
Rate per 1,000 gallons thereafter		4.85

Debt Service Charges:

Minimum charge for first 1,500 gallons	$	9.25
Rate per 1,000 gallons thereafter		2.47

2. The total number of water/sewer customers billed during the year ended December 31, 2012 averaged 1,680 per month.

3. Total gallons billed to water/sewer customers during the year ended December 31, 2012 amounted to 80,724,505.

4. Total dollars billed to water/sewer customers during the year ended December 31, 2012 amounted to $875,044, which include charges for service and debt assessments.

5. There is 300% 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, 2012, 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, 2012 was $811,742. At December 31, 2012, restricted assets consisted of one cash account held in trust for the repayment of debt service. The balance of the account at December 31, 2012 was $60,966.

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1
MISCELLANEOUS SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

8. A schedule of insurance policies in effect at December 31, 2012 is as follows:

Insurance Company	Type of Coverage	Amount of Coverage	Expiration Date
Great American Insurance Group	Commercial Property, Equipment and Other	$19,962,279	5-10-13
Great American Insurance Group	Earthquake	$5,000,000	5-10-13
Great American Insurance Group	Flood	$5,000,000	5-10-13
Arkansas Municipal Vehicle Program	Vehicles		
	Liability	$25,000/$30,000	8-24-13
	Physical Damage	$1,514,420	8-24-13

HOLIDAY ISLAND SUBURBAN IMPROVEMENT DISTRICT #1

STATEMENT OF INFLOWS AND OUTFLOWS OF THE DISTRICT BOND FUND AND DISTRICT BOND IMPROVEMENT FUND YEAR ENDED DECEMBER 31, 2012

	Bond Fund	Bond Improvement Fund
INFLOWS		
Collection of debt service assessments	$ 426,368	$ -
Proceeds from draw on bond	-	13,459
	426,368	13,459
OUTFLOWS		
Principal payments on bonds	213,353	-
Interest payments on bonds	151,098	-
Capital expenditures - sewer plant	-	13,459
	364,451	13,459
NET INFLOWS AND OUTFLOWS	61,917	-
BALANCE, BEGINNING OF YEAR	749,825	-
BALANCE, END OF YEAR	$ 811,742	$ -

See Independent Auditors' Report.