



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

November 13, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the Sundown Lake Rural Improvement Zone.

FINANCIAL HIGHLIGHTS:

The Rural Improvement Zone's receipts totaled \$313,136 for the year ended June 30, 2019, a 29.3% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$692,648, a 48.4% increase over the prior year. The significant increase in receipts is due to an increase in tax increment financing receipts and the increase in disbursements is due primarily to the construction of a containment basin north of the Lake.

AUDIT FINDINGS:

Sand reported four findings related to the receipt and disbursement of taxpayer funds. They are found on pages 19 through 21 of this report. The findings address issues such as lack of review of monthly bank reconciliations, lack of a written investment policy and errors related to the certification of the annual urban renewal report. Sand provided the Rural Improvement Zone with recommendations to address each of the findings.

The Rural Improvement Zone Trustees have a fiduciary responsibility to provide oversight of the Rural Improvement Zone's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports>.

#

SUNDOWN LAKE RURAL IMPROVEMENT ZONE

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2019

Sundown Lake Rural Improvement Zone



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Rob Sand
Auditor of State

October 29, 2019

Officials of the Sundown Lake Rural Improvement Zone
Centerville, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Sundown Lake Rural Improvement Zone for the year ended June 30, 2019. The audit was performed pursuant to Chapter 357H.9A of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Sundown Lake Rural Improvement Zone throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,


Rob Sand
Auditor of State

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Sundown Lake Rural Improvement Zone

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave Schoenberger	President	August 2019
Greg Hayes	Treasurer	August 2019
Frank Kamish	Clerk	August 2020
Andy Fuhs	Trustee	August 2021
Kevin Fritz	Trustee	August 2021



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Independent Auditor's Report

To the Trustees of the Sundown Lake Rural Improvement Zone:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sundown Lake Rural Improvement Zone, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the Rural Improvement Zone's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Rural Improvement Zone'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 Rural Improvement Zone'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the governmental activities and each major fund of the Sundown Lake Rural Improvement Zone as of June 30, 2019, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1 to the financial statements, the financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

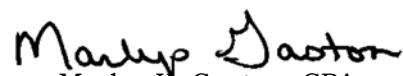
Other Matters

Other Information

The Other Information, Budgetary Comparison Information on pages 15 through 16, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2019 on our consideration of the Sundown Lake Rural Improvement Zone'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 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Sundown Lake Rural Improvement Zone's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

October 29, 2019

Sundown Lake Rural Improvement Zone

Basic Financial Statements

Exhibit A

Sundown Lake Rural Improvement Zone

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts		Net (Disbursements)	
	Operating Grants,		Receipts and Changes	
	Charges	Contributions	in Cash Basis	
	for	and Restricted	Net Position	
	Disbursements	Service	Governmental	
		Interest	Activities	
Functions/Programs:				
Governmental activities:				
Maintenance and improvements:				
Erosion control	\$ 333,550	-	-	(333,550)
Administration	5,482	-	-	(5,482)
Professional fees	173,540	-	-	(173,540)
Debt service	180,076	-	-	(180,076)
Total	\$ 692,648	-	-	(692,648)
General Receipts:				
Tax increment financing				313,136
Change in cash basis net position				(379,512)
Cash basis net position beginning of year				1,105,087
Cash basis net position end of year				\$ 725,575
Cash Basis Net Position				
Restricted for rural improvement zone purposes				\$ 725,575

See notes to financial statements.

Sundown Lake Rural Improvement Zone

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2019

	<u>General Fund</u>
Receipts:	
Tax increment financing	<u>\$ 313,136</u>
Disbursements:	
Maintenance and improvement:	
Erosion control	333,550
Administration	5,482
Professional fees	173,540
Debt service:	
Loan principal repayments	113,000
Interest on loan	<u>67,076</u>
Total disbursements	<u>692,648</u>
Deficiency of receipts under disbursements	<u>(379,512)</u>
Cash balances beginning of year	<u>1,105,087</u>
Cash balances end of year	<u>\$ 725,575</u>
Cash Basis Fund Balances	
Restricted for rural improvement purposes	<u>\$ 725,575</u>

See notes to financial statements.

Sundown Lake Rural Improvement Zone

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The Sundown Lake Rural Improvement Zone was formed in 2010 pursuant to the provisions of Chapter 357H of the Code of Iowa. The governing body of the Rural Improvement Zone is composed of five elected Trustees. The purpose of the Rural Improvement Zone is to manage maintenance and improvement of the Sundown Lake private development in rural Appanoose County.

A. Reporting Entity

For financial reporting purposes, the Sundown Lake Rural Improvement Zone has included all funds, organizations, agencies, boards, commissions and authorities. The Rural Improvement Zone has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Rural Improvement Zone are such that exclusion would cause the Rural Improvement Zone's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the rural Improvement Zone to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Rural Improvement Zone. The Rural Improvement Zone has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Entity-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the Rural Improvement Zone. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities are supported by tax revenues.

Net position is reported in the following category:

Restricted net position is used to manage maintenance and improvement of the Rural Improvement Zone.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Tax increment financing receipts and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for governmental fund.

The Rural Improvement Zone reports the following major governmental funds:

The General Fund is the special fund in which all tax increment financing receipts and other receipts are deposited. The fund pays the maintenance and improvement costs and the debt service costs of the Rural Improvement Zone.

C. Measurement Focus and Basis of Accounting

The Rural Improvement Zone maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Rural Improvement Zone are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the Rural Improvement Zone in accordance with U. S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budget comparison and related disclosures are reported as Other Information.

(2) Cash and Investments

The Rural Improvement Zone's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Rural Improvement Zone is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Rural Improvement Zone; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Rural Improvement Zone had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Revenue note	\$ 1,120,000	-	113,000	1,007,000

On September 6, 2017, the Rural Improvement Zone issued a tax increment financing (TIF) revenue note for \$1,120,000 for the purpose of rural improvement zone projects. The note bears interest at 3.50% per annum and is payable solely from TIF receipts generated by the rural improvement zone. The note matures on December 1, 2025. During the year ended June 30, 2019, the Rural Improvement Zone paid \$113,000 of principal and \$67,076 of interest on the certificate. A summary of the Rural Improvement Zone's June 30, 2019 tax increment financing revenue note indebtedness is as follows:

Year Ending June 30,	Interest Rate	September 9, 2017		Total
		Principal	Interest	
2020	3.50%	\$ 146,000	33,968	179,968
2021	3.50	151,000	28,823	179,823
2022	3.50	156,000	23,485	179,485
2023	3.50	162,000	17,972	179,972
2024	3.50	168,000	12,250	180,250
2025-2026	3.50	224,000	7,193	231,193
Total		\$ 1,007,000	123,691	1,130,691

(4) Risk Management

The Rural Improvement Zone is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors or omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. The Rural Improvement Zone assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

(5) Subsequent Event

In August 2019, the Rural Improvement Zone issued a \$940,000 tax increment improvement zone certificate for rural improvement zone projects.

Other Information

Sundown Lake Rural Improvement Zone

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Other Information

Year ended June 30, 2019

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Tax increment financing	\$ 313,136	309,114	309,114	4,022
Disbursements:				
Maintenance and improvement	512,572	844,100	906,500	393,928
Debt service	180,076	104,456	181,000	924
Total disbursements	692,648	948,556	1,087,500	394,852
Excess of disbursements over receipts	(379,512)	(639,442)		
Cash balance beginning of year	1,105,087	707,662		
Cash balance end of year	\$ 725,575	68,220		

See accompanying independent auditor's report.

Sundown Lake Rural Improvement Zone

Notes to Other Information – Budgetary Reporting

June 30, 2019

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year, one budget amendment increased budgeted disbursements by \$138,944. The budget amendment is reflected in the final budgeted amounts. Because the Rural Improvement Zone budget amendment form only allows for amendments to disbursements, the receipts were not amended to offset the increased disbursements. Accordingly, the beginning and ending balance information in the Final budget and the Final to Actual variance columns is not relevant.

Formal and legal budgetary control is based upon total General Fund disbursements.

During the year ended June 30, 2019, disbursements did not exceed the amount budgeted.



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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

To the Trustees of the Sundown Lake Rural Improvement Zone:

We have audited in accordance with U.S. generally accepted auditing standards 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 the governmental activities and the major fund of the Sundown Lake Rural Improvement Zone as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the Rural Improvement Zone's basis financial statements, and have issued our report thereon dated October 29, 2019. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sundown Lake Rural Improvement Zone's internal control over financial reporting to determine the audit procedures 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 Sundown Lake Rural Improvement Zone's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sundown Lake Rural Improvement Zone'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 a material misstatement of the Sundown Lake Rural Improvement Zone'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 which 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sundown Lake Rural Improvement Zone's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Rural Improvement Zone's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Rural Improvement Zone. Since our audit was based on tests and Sundown Lakes, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sundown Lake Rural Improvement Zone's Responses to the Findings

Sundown Lake Rural Improvement Zone's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Sundown Lake Rural Improvement Zone's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Rural Improvement Zone'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 Rural Improvement Zone's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Sundown Lake Rural Improvement Zone during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Marlys K. Gaston, CPA
Deputy Auditor of State

October 29, 2019

Sundown Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

(A) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Independent review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the Rural Improvement Zone's monthly financial reports. However, the monthly bank reconciliations are not reviewed and approved by an independent person.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – The Board will ensure that bank reconciliations are reviewed by another Board member, other than the Board Treasurer, by signing or initialing the monthly bank statements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sundown Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Rural Improvement Zone money for travel expenses of spouses of Rural Improvement Zone officials or employees were noted.
- (4) Bond Coverage – Surety bond coverage for Board members is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (5) Rural Improvement Zone Minutes – No transactions were found that we believe should have been approved in the Rural Improvement Zone minutes but were not
- (6) Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted, except as follows:

The Rural Improvement Zone has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The Rural Improvement Zone should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The Board will complete and adopt the required written investment policy.

Conclusion – Response accepted.

- (7) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was properly approved and certified to the Iowa Department of Management on or before December 1. However, the amount reported as TIF debt outstanding on the Levy Authority Summary was understated by \$190,766.

Recommendation – The Rural Improvement Zone should ensure the amounts reported on the Levy Authority Summary agree with the Rural Improvement Zone's records.

Response – The Board will ensure that the Annual Urban Renewal Report dollar amounts are accurate at the time the report is submitted.

Conclusion – Response accepted.

Sundown Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

- (8) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Rural Improvement Zone to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Rural Improvement Zone does not receive an image of the back of each cancelled check.

Recommendation – The Rural Improvement Zone should obtain and retain front and back images of cancelled checks as required.

Response – The Board Treasurer will contact the bank and request all future bank statements include images of both the front and back of each cancelled check.

Conclusion – Response accepted.

Sundown Lake Rural Improvement Zone

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Tammy A. Hollingsworth, CIA, Manager
Adjoa S. Adanledji, Staff Auditor
Crystal J. Boender, Staff Auditor