



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

October 24, 2018

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Diamondhead Lake Rural Improvement Zone.

The Rural Improvement Zone had total receipts of \$147,515 for the year ended June 30, 2018, a 5.6% increase over the prior year, including tax increment financing receipts of \$147,413 and unrestricted interest on investments of \$102.

Disbursements for the year ended June 30, 2018 totaled \$153,503, an increase of 6.9% over the prior year. The disbursements included \$71,325 for dredging, \$61,876 for erosion control, \$18,967 for professional fees and \$1,335 for administration.

A copy of the audit report is available for review in the Diamondhead Lake Rural Improvement Zone office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports>.

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DIAMONDHEAD LAKE RURAL IMPROVEMENT ZONE

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

JUNE 30, 2018

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Diamondhead Lake Rural Improvement Zone

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl O'Connor	President	August 2020
Jesse Gonzales	Clerk	August 2019
Gary Neimanis	Treasurer	August 2019
Oran Struecker	Trustee	(Resigned June 2018)
Terry Blair	Trustee	August 2020

Diamondhead Lake Rural Improvement Zone



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Independent Auditor's Report

To the Trustees of the Diamondhead 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 Diamondhead Lake Rural Improvement Zone, as of and for the year ended June 30, 2018, 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 an opinion 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 Diamondhead Lake Rural Improvement Zone as of June 30, 2018, 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, 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, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 9 and 19 through 20, 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 11, 2018 on our consideration of the Diamondhead 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 Diamondhead Lake Rural Improvement Zone's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State

October 11, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Diamondhead Lake Improvement Zone provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Diamondhead Lake Rural Improvement Zone is for the year ended June 30, 2018. We encourage readers to consider this information in conjunction with the Rural Improvement Zone's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the Rural Improvement Zone were \$147,515, including tax increment financing receipts of \$147,413.
- Disbursements of the Rural Improvement Zone were \$153,503, and included \$71,325 for dredging, \$61,876 for erosion control, \$18,967 for professional fees and \$1,335 for administration.
- The Rural Improvement Zone's cash balance decreased 6.9%, or approximately \$6,000 from June 30, 2017 to June 30, 2018.

USING THIS ANNUAL REPORT

The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Rural Improvement Zone's financial activities.
- The Entity-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the Rural Improvement Zone as a whole and presents an overall view of the Rural Improvement Zone's finances.
- The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. The fund financial statement reports the Rural Improvement Zone's operations in more detail than the entity-wide financial statement.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.
- Other Information further explains and supports the financial statements with a comparison of the Rural Improvement Zone's budget for the year.

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 statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE RURAL IMPROVEMENT ZONE'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Rural Improvement Zone's finances is, "Is the Rural Improvement Zone as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the Rural Improvement Zone's net position. Over time, increases or decreases in the Rural Improvement Zone's net position may serve as a useful indicator of whether the financial position of the Rural Improvement Zone is improving or deteriorating.

Fund Financial Statement

Governmental funds account for the Rural Improvement Zone's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental fund financial statement provides a detailed, short-term view of the Rural Improvement Zone's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Rural Improvement Zone's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The Rural Improvement Zone's cash balance decreased from \$86,466 to \$80,478. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2018	2017
Receipts:		
General receipts:		
Tax increment financing	\$ 147,413	139,644
Unrestricted interest on investments	102	58
Total receipts	147,515	139,702
Disbursements:		
Maintenance and improvements:		
Dredging	71,325	70,883
Erosion control	61,876	51,468
Administration	1,335	5,271
Professional fees	18,967	16,000
Total disbursements	153,503	143,622
Change in cash basis net position	(5,988)	(3,920)
Cash basis net position beginning of year	86,466	90,386
Cash basis net position end of year	\$ 80,478	86,466

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Diamondhead Lake Rural Improvement Zone completed the year, its governmental fund, the General Fund, reported a fund balance of \$80,478, a decrease of approximately \$6,000 from last year's total of \$86,466. The decrease was due to increased erosion control disbursements related to a new project started in fiscal year 2018.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Rural Improvement Zone did not amend its budget.

The Rural Improvement Zone did not exceed its budget for the year.

DEBT ADMINISTRATION

At June 30, 2018, the Rural Improvement Zone had no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Diamondhead Lake Rural Improvement Zone's elected officials considered many factors when setting the fiscal year 2019 budget. The fiscal year 2019 budgeted receipts are expected to remain similar to fiscal year 2018, while budgeted disbursements are expected to increase approximately \$30,000 over the fiscal year 2018 actual disbursements, due to anticipated increased dredging expenses in fiscal year 2019.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Rural Improvement Zone's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer of the Diamondhead Lake Rural Improvement Zone at 9239 Diamondhead Drive, Dexter, Iowa 50070.

Diamondhead Lake Rural Improvement Zone

Basic Financial Statements

Exhibit A

Diamondhead Lake Rural Improvement Zone
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2018

	Disbursements	Charges for Service	Program Receipts Operating Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position Governmental Activities
Functions/Programs:				
Governmental activities:				
Maintenance and improvements:				
Dredging	\$ 71,325	-	-	(71,325)
Erosion control	61,876	-	-	(61,876)
Administration	1,335	-	-	(1,335)
Professional fees	18,967	-	-	(18,967)
Total	\$ 153,503	-	-	(153,503)
General Receipts:				
Tax increment financing				147,413
Unrestricted interest on investments				102
Total general receipts				147,515
Change in cash basis net position				(5,988)
Cash basis net position beginning of year				86,466
Cash basis net position end of year				\$ 80,478
Cash Basis Net Position				
Restricted for rural improvement zone purposes				\$ 80,478

See notes to financial statements.

Diamondhead 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, 2018

	<u>General Fund</u>
Receipts:	
Tax increment financing	\$ 147,413
Use of money and property	<u>102</u>
Total receipts	<u>147,515</u>
Disbursements:	
Maintenance and improvement:	
Dredging	71,325
Erosion control	61,876
Administration	1,335
Professional fees	<u>18,967</u>
Total disbursements	<u>153,503</u>
Deficiency of receipts under disbursements	(5,988)
Cash balances beginning of year	<u>86,466</u>
Cash balances end of year	<u>\$ 80,478</u>
Cash Basis Fund Balances	
Restricted for rural improvement zone purposes	<u>\$ 80,478</u>

See notes to financial statements.

Diamondhead Lake Rural Improvement Zone

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

The Diamondhead Lake Rural Improvement Zone was formed in October 1997 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 Diamondhead Lake private development in rural Guthrie County.

A. Reporting Entity

For financial reporting purposes, the Diamondhead 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 the governmental fund.

The Rural Improvement Zone reports the following major governmental fund:

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 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, 2018 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) Risk Management

The Rural Improvement Zone is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 775 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Rural Improvement Zone's property and casualty contributions to the Pool are recorded as disbursements at the time of payment to the Pool. The Rural Improvement Zone's contributions to the Pool for the year ended June 30, 2018 were \$1,270.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Rural Improvement Zone's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Rural Improvement Zone's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Rural Improvement Zone's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

Other Information

Diamondhead Lake Rural Improvement Zone

Diamondhead Lake Rural Improvement Zone

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – General Fund

Other Information

Year ended June 30, 2018

	Actual	Budgeted Amounts Original/ Final	Final Actual Variance
Receipts:			
Tax increment financing	\$ 147,413	145,000	2,413
Interest on investments	102	35	67
Total receipts	147,515	145,035	2,480
Disbursements:			
Maintenance and improvement	153,503	182,700	29,197
Total disbursements	153,503	182,700	29,197
Deficiency of receipts under disbursements	(5,988)	(37,665)	31,677
Cash balance beginning of year	86,466	97,425	(10,959)
Cash balance end of year	\$ 80,478	59,760	20,718

See accompanying independent auditor's report.

Diamondhead Lake Rural Improvement Zone

Notes to Other Information – Budgetary Reporting

June 30, 2018

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 for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

During the year ended June 30, 2018, 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 Diamondhead 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 Diamondhead Lake Rural Improvement Zone as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, and have issued our report thereon dated October 11, 2018. 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 statement, we considered the Diamondhead 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 Diamondhead Lake Rural Improvement Zone's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diamondhead 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 Diamondhead 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 Diamondhead 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, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Rural Improvement Zone. Since our audit was based on tests and samples, 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.


Diamondhead Lake Rural Improvement Zone's Responses to the Findings

Diamondhead Lake Rural Improvement Zone's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Diamondhead Lake Rural Improvement Zone's responses were not subjected to the auditing procedures applied in the audit of the financial statement 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 Diamondhead 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.


MARY MOSIMAN, CPA
Auditor of State

October 11, 2018

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2018

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same individual. This segregation of duties helps prevent losses from error or dishonesty and maximizes the accuracy of the Rural Improvement Zone’s financial statements.

Condition – Generally, one individual has control over each of the following areas:

- (1) Accounting system – general accounting, general ledger, journal entries, custody and control.
- (2) Disbursements – Processing of claims, check writing, signing and posting.

In addition, the Rural Improvement Zone does not have an accounting policies and procedures manual.

Cause – The Rural Improvement Zone has not designed procedures to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Rural Improvement Zone’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by individuals in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of individuals. However, the Rural Improvement Zone should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available Board of Trustees. The Rural Improvement Zone should develop an accounting policies and procedures manual.

Response – Invoices presented for payment are reviewed by a quorum of the Board at every monthly meeting. The monthly financial report which summarizes both invoices approved for payment and checks posted to the bank account from the previous month will have a section added to allow for all Board members to initial and indicate acknowledgement of their review of current activity. Given that the Rural Improvement Zone writes less than 50 checks a year, the Board considers implementing a more formal accounting system with a General Ledger and Journal to be impractical and excessively expensive for our small operation. We believe our present system of using an Excel spreadsheet provides adequate record keeping for our small transaction volume. We will create documentation to explain the procedures we follow for our record keeping.

Conclusion – Response accepted.

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2018

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2018 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 – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted, except as follows:

The Rural Improvement Zone has not adopted a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa and has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The Rural Improvement Zone should establish a resolution naming official depositories in amounts sufficient to cover anticipated balances in accordance with Chapter 12C.2 of the Code of Iowa. The Rural Improvement Zone should also adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The Rural Improvement Zone will adopt a depository resolution and a written investment policy, which will be reviewed and renewed on an annual basis.

Conclusion – Response accepted.

- (7) Annual Urban Renewal Report (AURR) – The Annual Urban Renewal Report 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 \$30,500.

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

Response – We understand the issue and will resolve it going forward.

Conclusion – Response accepted.

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2018

- (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 Rural Improvement Zone will seek obtaining images of the back of cancelled checks.

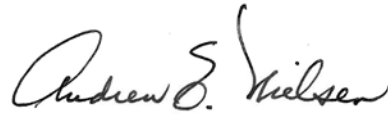
Conclusion – Response accepted.

Diamondhead Lake Rural Improvement Zone

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Cody J. Pifer, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State