



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

March 24, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The Rural Improvement Zone had total receipts of \$392,515 for the year ended June 30, 2019, a 38.5% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$438,266, a 33.0% increase over the prior year. The significant increase in receipts and disbursements is due primarily to increases in tax increment financing receipts to fund erosion control projects and increases in the amount of loan proceeds and repayments.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and disbursement of taxpayer funds. They are found on pages 22 through 25 of this report. The findings address issues such as a lack of segregation of duties, lack of Trustee approval of disbursements, lack of supporting documentation for disbursements and noncompliance with Chapter 357H of the Code of Iowa which requires the RIZ to publish notice prior to entering into a debt contract. Sand provided the Rural Improvement Zone with recommendations to address each of the findings.

Three of the findings discussed above are repeated from the prior year. The Rural Improvement Zone Trustees have a fiduciary responsibility to provide oversight of the Rural Improvement Zone 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/>.

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HOLIDAY LAKE RURAL IMPROVEMENT ZONE

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

JUNE 30, 2019

Holiday Lake Rural Improvement Zone



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Rob Sand
Auditor of State

March 4, 2020

Officials of the Holiday Lake Rural Improvement Zone
Brooklyn, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Holiday Lake Rural Improvement Zone for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 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 of the Holiday 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,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand
Auditor of State

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Holiday Lake Rural Improvement Zone

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Beumer	President	August 2020
Del Sherwood	Clerk	August 2020
Rick Happe	Treasurer	August 2021
Dale Nelson	Trustee	August 2019
Brian Edelan	Trustee	August 2021



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Independent Auditor's Report

To the Trustees of the Holiday Lake Rural Improvement Zone:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Holiday 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 statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a 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 the major fund of the Holiday 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, 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.

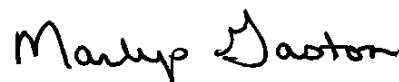
Other Matters

Other Information

The other information, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 6 through 9 and 18 through 19, 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 date March 4, 2020 on our consideration of the Holiday 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 Holiday Lake Rural Improvement Zone's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

March 4, 2020

MAN-AGEMENT'S DISCUSSION AND ANALYSIS

The Holiday Lake Rural Improvement Zone provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Holiday Lake Rural Improvement Zone is for the year ended June 30, 2019. We encourage readers to consider this information in conjunction with the Rural Improvement Zone's financial statements, which follow.

2019 FINANCIAL HIGHLIGHTS

- Receipts of the Rural Improvement Zone's governmental activities increased 38.5%, or approximately \$109,000, from fiscal year 2018 to fiscal year 2019. Tax increment financing receipts increased approximately \$50,000 and loan proceeds increased \$60,000.
- Disbursements of the Rural Improvement Zone's governmental activities increased 33.0%, or approximately \$109,000, in fiscal year 2019 over fiscal year 2018. Erosion control increased approximately \$52,000 and debt service increased approximately \$62,000.
- The Rural Improvement Zone's total cash basis net position decreased 99%, or approximately \$46,000 from June 30, 2018 to June 30, 2019.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the 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 funds include the General Fund. 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 \$46,194 to \$443. 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,	
	2019	2018
Receipts:		
General receipts:		
Tax increment financing	\$ 282,266	232,391
Unrestricted interest on investments	249	96
Miscellaneous receipts	-	925
Loan proceeds	110,000	50,000
Total receipts	392,515	283,412
Disbursements:		
Maintenance and improvements:		
Erosion control	287,668	235,833
Water quality	17,625	17,420
Administration	1,254	1,817
Professional fees	-	5,085
Debt Service:		
Principal on loans	110,000	50,000
Interest on loans	21,719	19,321
Total disbursements	438,266	329,476
Change in cash basis net position	(45,751)	(46,064)
Cash basis net position beginning of year	46,194	92,258
Cash basis net position end of year	\$ 443	46,194

The Rural Improvement Zone's total receipts for governmental activities increased 38.5%, or approximately \$109,000 over the prior year. The total cost of all programs and services increased approximately \$109,000, or 33.0%. The increase in receipts was primarily the result of tax increment financing receipts increasing approximately \$50,000 and \$60,000 more in loan proceeds received compared to the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Holiday Lake Rural Improvement Zone completed the year, the General Fund reported a fund balance of \$443, a decrease of approximately \$46,000 from last year's total of \$46,194. This decrease is due to increased disbursements for erosion control and debt service.

BUDGETARY HIGHLIGHTS

The Rural Improvement Zone adopted the budget in March 2018. No budget amendments were made.

For the year ended June 30, 2019, the Rural Improvement Zone did not exceed the amount budgeted.

DEBT ADMINISTRATION

The Rural Improvement Zone had \$350,000 of long-term debt outstanding at June 30, 2019.

The Constitution of the State of Iowa limits the amount of general obligation debt which can be issued to 5% of the assessed value of all taxable property within the Rural Improvement Zone. The Rural Improvement Zone's outstanding debt of \$350,000 is significantly below its constitutional debt limit of approximately \$4.3 million. Additional information about the Rural Improvement Zone's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Holiday Lake Rural Improvement Zone's elected officials considered many factors when setting the fiscal year 2020 budget. Budgeted receipts and disbursements are approximately \$494,000 and \$420,000, respectively. The total ending fund balance is expected to be approximately \$74,000 at June 30, 2020.

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 Holiday Lake Rural Improvement Zone, PO Box 24, Brooklyn, Iowa 52211.

Holiday Lake Rural Improvement Zone

Basic Financial Statements

Exhibit A

Holiday Lake Rural Improvement Zone

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	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:				
Erosion control	\$ 287,668	-	-	(287,668)
Water quality	17,625	-	-	(17,625)
Administration	1,254	-	-	(1,254)
Debt service	131,719	-	-	(131,719)
Total	\$ 438,266	-	-	(438,266)
General Receipts:				
Tax increment financing				282,266
Unrestricted interest on investments				249
Loan proceeds				110,000
Total general receipts				392,515
Change in cash basis net position				(45,751)
Cash basis net position beginning of year				46,194
Cash basis net position end of year				\$ 443
Cash Basis Net Position				
Restricted for rural improvement zone purposes				\$ 443
See notes to financial statements.				

Holiday 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	\$ 282,266
Use of money and property	249
Total receipts	<u>282,515</u>
Disbursements:	
Maintenance and improvement:	
Erosion control	287,668
Water quality	17,625
Administration	1,254
Debt service:	
Principal on loans	110,000
Interest on loans	21,719
Total disbursements	<u>438,266</u>
Deficiency of receipts under disbursements	(155,751)
Other financing sources:	
Loan proceeds	<u>110,000</u>
Change in cash balances	(45,751)
Cash balances beginning of year	<u>46,194</u>
Cash balances end of year	<u>\$ 443</u>
Cash Basis Fund Balances	
Restricted for rural improvement zone purposes	<u>\$ 443</u>

See notes to financial statements.

Sample Rural Improvement Zone

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The Holiday 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 Holiday Lake development in rural Poweshiek County.

A. Reporting Entity

For financial reporting purposes, the Holiday 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 categories:

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 funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 statements do 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) Loans Payable

On November 29, 2013, the Rural Improvement Zone issued a promissory note to R.M. Clayton, Jr. and Jeanne Clayton for \$100,000 with interest of 5.00% per annum payable annually on November 29. The note matured on November 29, 2014 but was extended until November 29, 2019. During the year ended June 30, 2019, the Rural Improvement Zone paid \$5,000 of interest on the note.

On November 29, 2013, the Rural Improvement Zone issued a promissory note to Esther Brannian for \$200,000 with interest of 5.00% per annum payable annually on November 29. The note matured November 29, 2014 but \$100,000 of the note was extended until November 29, 2017. At Esther Brannian's death the note was reissued as two separate notes payable to heirs Jeanne Clayton and Kim Bauman for \$50,000 each with maturities extended to November 29, 2019. During the year ended June 30, 2019, the Rural Improvement Zone paid \$5,000 of interest on the notes.

On July 10, 2014, the Rural Improvement Zone issued a promissory note to the Holiday Lake Owners Association, Inc. for \$100,000 with interest of 5.50% per annum payable annually on July 10. The note matured on July 10, 2016 and \$50,000 was repaid but the remaining balance of \$50,000 was extended until July 10, 2019. During the year ended June 30, 2019, the Rural Improvement Zone paid \$2,750 of interest on the note.

On July 14, 2016, the Rural Improvement Zone issued a promissory note to the Holiday Lake Owners Association, Inc. for \$100,000 with interest of 5.50% per annum payable annually on July 10. The note matured on July 10, 2018 but was extended until July 10, 2019. During the year ended June 30, 2019, the Rural Improvement Zone paid \$5,500 of interest on the note.

On November 29, 2018, the Rural Improvement Zone issued a promissory note to First State Bank of Lynnville, Iowa for \$110,000 with interest of 6.29% per annum payable annually on November 29. The note was paid in full on May 31, 2019. During the year ended June 30, 2019, the Rural Improvement Zone paid \$3,469 of interest on the note.

(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.

Other Information

Holiday Lake Rural Improvement Zone

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

Other Information

Year ended June 30, 2019

	Actual	Budgeted Amounts Original/ Final	Final Actual Variance
Receipts:			
Tax increment financing	\$ 282,266	260,000	22,266
Use of money and property	249	115	134
Total receipts	282,515	260,115	22,400
Disbursements	438,266	684,520	246,254
Deficiency of receipts under disbursements	(155,751)	(424,405)	268,654
Other financing sources	110,000	400,000	(290,000)
Deficiency of receipts and other financing sources under disbursements	(45,751)	(24,405)	(21,346)
Cash balance beginning of year	46,194	59,334	(13,140)
Cash balance end of year	\$ 443	34,929	(34,486)

See accompanying independent auditor's report.

Holiday 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 adopt 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 disbursements by fund. Disbursements required to be budgeted include disbursements for the General Fund.

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 Holiday 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 Holiday Lake Rural Improvement Zone as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, and have issued our report thereon dated March 4, 2020. 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 Holiday 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 Holiday Lake Rural Improvement Zone's internal control. Accordingly, we do not express an opinion on the effectiveness of the Holiday Lake Rural Improvement Zone's internal control.

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. However, as described in the accompanying Schedule of Findings, we identified deficiencies we consider to be a material weakness and a significant deficiency.

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 Holiday Lake Rural Improvement Zone's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Holiday 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 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.

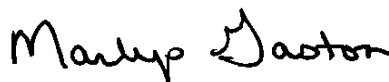
Holiday Lake Rural Improvement Zone's Responses to the Findings

Holiday Lake Rural Improvement Zone's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Holiday 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 Holiday 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

March 4, 2020

Holiday Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

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 employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Rural Improvement Zone's financial statements.

Condition – Generally, one individual in the Rural Improvement Zone has control over the processing of invoices, check preparation and signing, and bank reconciliations. Bank reconciliations were not independently reviewed for all months tested.

Cause – The Rural Improvement Zone has a limited number of Trustees and procedures have not been designed 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 employees in the normal course of performing their assigned functions.

Recommendation – The Board should review its control activities to obtain the maximum internal control possible under the circumstances utilizing current members to provide additional control through review of financial transactions, reconciliations and reports.

Response – The RIZ Trustees are aware of this weakness in a small organization. To mitigate the risk, all bank statements including copies of all checks are included in every Trustees meeting packet, every month along with a copy of the reconciliation and copies of all invoices paid are made available at the meeting. To document this, another officer reviews the originals and initials on the page to document it was reviewed. We may have inadvertently missed getting initials on a document.

Conclusion – Response accepted.

(B) Disbursements

Criteria – All disbursements are required to be approved by Board of Trustees prior to disbursement. Supporting documentation is to be attached to the disbursement for review by the Board.

Condition – Certain disbursements were not approved by the Board of Trustees prior to disbursement. Certain other disbursements did not have proper documentation to support the claim.

Holiday Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

Cause – The RIZ has a limited number of meetings. Some bills are presented prior to, or after, a Board meeting and need to be paid before the next time the Board of Trustees convenes. Lack of supporting documentation for disbursements is the result of lack of complete records being maintained.

Effect – Inadequate review of claims and supporting documentation could adversely affect the Rural Improvement Zone’s ability to prevent or detect and correct misstatements, errors or misappropriation.

Recommendation – All disbursements should include proper supporting documentation and should be approved by the Board of Trustees prior to payment.

Response – It is the intention and policy of the RIZ Trustees that all disbursements must be supported and approved by Board motion prior to payment. If something was missed it was inadvertent.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Holiday 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 – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa.
- (7) Annual Urban Renewal Report – The Annual Urban Renewal Report was not certified to the Iowa Department of Management on or before December 1. The report due December 1, 2018 was not filed until December 5, 2018.

Recommendation – The RIZ should institute policies to get the Annual Urban Renewal Report is finished, approved and submitted to the Iowa Department of Management on or before December 1.

Response – It is the policy of the RIZ to file all reports timely. The report in question was completed ahead of time and approved by the Board. The Treasurer inadvertently forgot to go back in the DOM website and mark the report approved until the next meeting, 4 days after the deadline.

- (8) Debt Issuance – Chapter 357H of the Code of Iowa allows the Rural Improvement Zone to enter into contracts or other obligations payable from future receipts to provide funds for the payment of costs of improvement projects. “Before contracts or other obligations are issued into, the board of trustees shall publish a notice of its intention, stating the amount, the purpose, and the improvement project or projects for which the certificates, contracts, or other obligations are to be issued or entered into.”

The Rural Improvement Zone did not publish notice prior to entering into a new debt contract on November 29, 2018.

Recommendation – Before entering into any new debt contracts, the Rural Improvement Zone should publish the notifications required by Chapter 357H of the Code of Iowa.

Holiday Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

Response – The RIZ Board appreciates the Auditor making us aware of this requirement and we published and followed this procedure when setting up our new line of credit.

Conclusion – Response accepted.

- (9) Investment Policy – 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 that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The Rural Improvement Zone has the draft investment policy and will adopt the written policy at our next meeting.

Conclusion – Response accepted.

Holiday Lake Rural Improvement Zone

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Donna F. Kruger, CPA, Manager
Kelly L. Hilton, Senior Auditor
Matthew A. Miller, Staff Auditor