



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

May 20, 2021

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 \$1,249,699 for the year ended June 30, 2020, a 299.1% increase over the prior year. Disbursements for the year ended June 30, 2020 totaled \$1,340,642, a 93.6% increase over the prior year. The increase in receipts is due to proceeds received from the issuance of a tax increment improvement zone certificate and the significant increase in disbursements is due primarily a hydraulic dredging project.

AUDIT FINDINGS:

Sand reported two findings related to the receipt and disbursement of taxpayer funds. They are found on pages 20 and 21 of this report. The findings address issues such as a lack of review of monthly bank reconciliations. Sand provided the Rural Improvement Zone with recommendations to address each of the findings.

The two 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'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>.

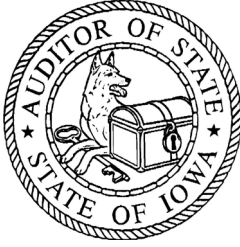
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SUNDOWN LAKE RURAL IMPROVEMENT ZONE

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

JUNE 30, 2020

Sundown Lake Rural Improvement Zone



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May 4, 2021

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, 2020. 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,

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

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Board of Trustees	3
Independent Auditor's Report	4-5
Basic Financial Statements:	<u>Exhibit</u>
Entity-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 8
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 9
Notes to Financial Statements	10-13
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual - All governmental funds	16
Notes to Other Information – Budgetary Reporting	17
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 <u>Government Auditing Standards</u>	18-19
Schedule of Findings	20-21
Staff	22

Sundown Lake Rural Improvement Zone

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave Schoenberger	President	August 2022
Greg Hayes	Treasurer	August 2022
Kevin Fritz	Clerk	August 2021
Andy Fuhs	Trustee	August 2021
Frank Kamish	Trustee	August 2020



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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, 2020, 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, 2020, 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.

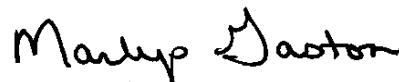
Other Matters

Other Information

The Other Information, Budgetary Comparison Information on pages 16 through 17, 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 May 4, 2021 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

May 4, 2021

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, 2020

	<u>Program Receipts</u>			Net (Disbursements)
	Charges for Disbursements	Operating Grants, and Restricted Service	Contributions and Restricted Interest	Receipts and Changes in Cash Basis Net Position Governmental Activities
Functions/Programs:				
Governmental activities:				
Maintenance and improvements:				
Dredging	\$ 754,554	-	-	(754,554)
Erosion control	1,302	-	-	(1,302)
Administration	314,973	-	-	(314,973)
Professional fees	88,546	-	-	(88,546)
Debt service	181,267	-	-	(181,267)
Total	<u>\$ 1,340,642</u>	-	-	<u>(1,340,642)</u>
General Receipts:				
Tax increment financing				326,149
Note proceeds, net of \$16,450 issuance costs				<u>923,550</u>
Total general receipts				1,249,699
Change in cash basis net position				(90,943)
Cash basis net position beginning of year				<u>725,575</u>
Cash basis net position end of year				<u>\$ 634,632</u>
Cash Basis Net Position				
Restricted for rural improvement zone purposes				<u>\$ 634,632</u>
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, 2020

	<u>General Fund</u>
Receipts:	
Tax increment financing	<u>\$ 326,149</u>
Disbursements:	
Maintenance and improvement:	
Dredging	754,554
Erosion control	1,302
Administration	314,973
Professional fees	88,546
Debt service:	
Loan principal repayments	146,000
Interest and fees on loan	<u>35,267</u>
Total disbursements	<u>1,340,642</u>
Deficiency of receipts under disbursements	(1,014,493)
Other financing sources:	
Note proceeds, net of \$16,450 issuance costs	923,550
Cash balances beginning of year	<u>725,575</u>
Cash balances end of year	<u>\$ 634,632</u>
Cash Basis Fund Balances	
Restricted for rural improvement purposes	<u>\$ 634,632</u>

See notes to financial statements.

Sundown Lake Rural Improvement Zone

Notes to Financial Statements

June 30, 2020

(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, 2020 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) Tax Increment Improvement Zone Certificates

A summary of changes in tax increment improvement zone certificates for the year ended June 30, 2020 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance Beginning of Year
Tax Increment Improvement Zone Certificates	\$ 1,007,000	940,000	146,000	1,801,000

On September 6, 2017, the Rural Improvement Zone issued a tax increment improvement zone certificate for \$1,120,000 for the purpose of rural improvement zone projects. The certificate bears interest at 3.50% per annum and is payable solely from tax increment financing (TIF) receipts generated by the rural improvement zone. The certificate matures on December 1, 2025. During the year ended June 30, 2020, the Rural Improvement Zone paid \$146,000 of principal and \$33,968 of interest on the certificate.

On September 18, 2019, the Rural Improvement Zone issued a tax increment improvement zone certificate for \$940,000 for the purpose of rural improvement zone projects. The certificate bears interest at 2.85% per annum and is payable solely from TIF receipts generated by the rural improvement zone. The certificate matures December 1, 2028. No payments were made on the certificate during the fiscal year.

Annual debt service to maturity for the tax increment improvement zone certificates are as follows:

Year Ending June 30,	Tax Increment Improvement Zone Certificate			Tax Increment Improvement Zone Certificate			Total	
	Series 2017B			Series 2019			Principal	Interest
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest		
	Issued September 6, 2017			Issued September 18, 2019				
2021	3.50%	\$ 151,000	28,823	2.85%	\$ 20,000	45,475	\$ 171,000	74,298
2022	3.50	156,000	23,485	2.85	40,000	25,935	196,000	49,420
2023	3.50	162,000	17,972	2.85	40,000	24,795	202,000	42,767
2024	3.50	168,000	12,250	2.85	40,000	23,655	208,000	35,905
2025	3.50	174,000	6,318	2.85	45,000	22,444	219,000	28,762
2026-2029	3.50	50,000	875	2.85	755,000	44,959	805,000	45,834
Total		\$ 861,000	89,723		\$ 940,000	187,263	\$ 1,801,000	276,986

(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) COVID – 19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Sundown Rural Improvement Zone, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the Rural Improvement Zone. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Sundown Rural Improvement Zone's operations and finances.

Sundown Lake Rural Improvement Zone

Other Information

Sundown 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, 2020

	Actual	Budgeted Amounts		Final to
		Original	Final	Actual Variance
Receipts:				
Tax increment financing	\$ 326,149	343,744	343,744	(17,595)
Disbursements:				
Maintenance and improvement	1,159,375	1,309,000	1,629,000	469,625
Debt service	181,267	180,000	185,000	3,733
Total disbursements	1,340,642	1,489,000	1,814,000	473,358
Excess of disbursements over receipts	(1,014,493)	(1,145,256)	(1,470,256)	455,763
Other financing sources:				
Note proceeds	923,550	915,000	915,000	8,550
Change in cash balance	(90,943)	(230,256)	(555,256)	464,313
Cash balance beginning of year	725,575	240,944	565,944	159,631
Cash balance end of year	\$ 634,632	10,688	10,688	623,944

See accompanying independent auditor's report.

Sundown Lake Rural Improvement Zone

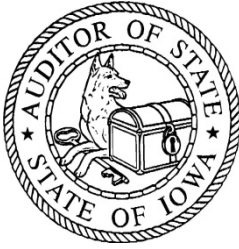
Notes to Other Information – Budgetary Reporting

June 30, 2020

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 \$325,000.

Formal and legal budgetary control is based upon total disbursements by fund. Disbursements required to be budgeted include disbursements for the general fund.

During the year ended June 30, 2020, 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, 2020, and the related Notes to Financial Statements, which collectively comprise the Rural Improvement Zone's basic financial statements, and have issued our report thereon dated May 4, 2021. 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 an immaterial instance of non-compliance or other matters which is 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, 2020 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.

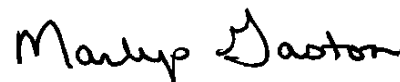
Sundown Lake Rural Improvement Zone's Responses to the Findings

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

May 4, 2021

Sundown Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2020

Finding 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 contact the accounting firm and request a monthly financial statement so the Board can reconcile it against the monthly bank statements. We will have a Trustee, other than the Treasurer, review and sign off on the reconciliations.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sundown Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2020

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2020 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) Restricted Donor Activity – No transactions were noted between the Board of Trustees, Rural Improvement Zone officials and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- (5) 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.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Rural Improvement Zone minutes but were not.
- (7) 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 were noted.
- (8) 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.
- (9) 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 – Beginning September 2019, the bank statements contain images for both the front and back of cancelled checks

Conclusion – Response accepted.

Sundown Lake Rural Improvement Zone

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Gwen D. Fangman, CPA, Manager
Matthew Miller, Senior Auditor