



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

October 25, 2023

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

FINANCIAL HIGHLIGHTS:

The Rural Improvement Zone's receipts totaled \$2,060,562 for the year ended June 30, 2023, a 726.4% increase over the prior year. Disbursements for the year ended June 30, 2023 totaled \$1,122,106, a 262.4% increase over the prior year. The significant increase in receipts is due primarily due to note proceeds of \$1,098,600 and insurance proceeds of \$620,957 during the fiscal year. The significant increase in disbursements is due to equipment purchases for the ongoing dredging project.

AUDIT FINDINGS:

Sand reported one finding related to the receipt and disbursement of taxpayer funds. The finding is found on page 23 of this report. The finding addresses questionable disbursements. Sand provided the Rural Improvement Zone with a recommendation to address the finding.

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 website at [Audit Reports – Auditor of State](#).

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DIAMONDHEAD LAKE RURAL IMPROVEMENT ZONE

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

JUNE 30, 2023

Diamondhead Lake Rural Improvement Zone



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Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

October 9, 2023

Officials of the Diamondhead Lake Rural Improvement Zone
Dexter, Iowa

Dear Trustees:

I am pleased to submit to you the financial and compliance audit report for the Diamondhead Lake Rural Improvement Zone for the year ended June 30, 2023. 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 and employees of the Diamondhead 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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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 | January 2024 |
| Jesse Gonzales | Clerk/Secretary | January 2026 |
| Gary Neimanis | Treasurer | January 2026 |
| Andrew Sawyers | Trustee | January 2025 |
| Marc Van Houten | Trustee | January 2024 |

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 Audit of the Financial Statements

Opinions

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, 2023, and the related Notes to Financial Statements, which collectively comprise the Rural Improvement Zone's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the Rural Improvement Zone as of June 30, 2023, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Diamondhead Lake Rural Improvement Zone, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rural Improvement Zone's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rural Improvement Zone's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.


Other Information

Management is responsible for the other information included in the report. The other information comprises the Budgetary Comparison Information on pages 18 and 19 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2023 on our consideration of the Diamondhead Lake Rural Improvement Zone's internal control over financial reporting and on 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 Rural Improvement Zone's 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 Rural Improvement Zone's internal control over financial reporting and compliance.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

October 9, 2023

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, 2023

| | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Cash Basis Net Position |
|--|---------------|---------------------------|--|--|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Maintenance and improvements: | | | | |
| Dredging | \$ 175,626 | - | - | (175,626) |
| Erosion control | 83,408 | - | - | (83,408) |
| Administration | 6,047 | - | - | (6,047) |
| Professional fees | 72,274 | - | - | (72,274) |
| Debt service | 200,604 | - | - | (200,604) |
| Capital outlay | 584,147 | - | - | (584,147) |
| Total | \$ 1,122,106 | - | - | (1,122,106) |
| General Receipts: | | | | |
| Tax increment financing | | | | 263,707 |
| Unrestricted interest on investments | | | | 42,632 |
| Note proceeds | | | | 1,098,600 |
| Miscellaneous | | | | 655,623 |
| Total general receipts | | | | 2,060,562 |
| Change in cash basis net position | | | | 938,456 |
| Cash basis net position beginning of year | | | | 341,150 |
| Cash basis net position end of year | | | | \$ 1,279,606 |
| Cash Basis Net Position | | | | |
| Restricted for rural improvement zone purposes | | | | \$ 1,279,606 |

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, 2023

| | <u>General Fund</u> |
|--|-------------------------|
| Operating receipts: | |
| Tax increment financing | \$ 263,707 |
| Miscellaneous | <u>34,666</u> |
| Total operating receipts | <u>298,373</u> |
| Operating disbursements: | |
| Maintenance and improvement: | |
| Dredging | 175,626 |
| Erosion control | 83,408 |
| Administration | 6,047 |
| Professional fees | <u>72,274</u> |
| Total operating disbursements | <u>337,355</u> |
| Deficiency in operating receipts under operating disbursements: | (38,982) |
| Non-operating receipts (disbursements): | |
| Interest and investment income | 42,632 |
| Insurance proceeds | 620,957 |
| Debt service: | |
| Loan principal repayments | (110,000) |
| Interest on loan | (90,604) |
| Capital outlay | <u>(584,147)</u> |
| Net non-operating receipts (disbursements) | <u>(121,162)</u> |
| Deficiency of receipts under disbursements | (160,144) |
| Other financing sources: | |
| Note proceeds, net of issuance costs of \$46,400 | <u>1,098,600</u> |
| Change in cash balance | 938,456 |
| Cash balances beginning of year | <u>341,150</u> |
| Cash balances end of year | <u>\$ 1,279,606</u> |
| Cash Basis Fund Balances | |
| Restricted for rural improvement zone purposes | <u>\$ 1,279,606</u> |

See notes to financial statements.

Diamondhead Lake Rural Improvement Zone

Notes to Financial Statements

June 30, 2023

(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. During the year ended June 30, 2023, disbursements did not exceed the amount budgeted.

(2) Cash and Investments

The Rural Improvement Zone's deposits in banks at June 30, 2023 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) Revenue Note

A summary of changes in long-term liabilities for the year ended June 30, 2023 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--------------|---------------------------------|-----------|-----------|---------------------------|
| Revenue note | \$ 1,350,000 | 1,145,000 | 110,000 | 2,385,000 |

On November 28, 2018, the Rural Improvement Zone issued a tax increment financing (TIF) revenue note for \$1,490,000 for the purpose of rural improvement zone projects. The note bears interest at 4.15% per annum and is payable solely from TIF receipts generated by the rural improvement zone. During the year ended June 30, 2023, the Trustees paid principal of \$61,000 and interest of \$56,025 on the note. The note matures on June 1, 2038.

On July 29, 2022, the Rural Improvement Zone issued a tax increment financing (TIF) revenue note for \$1,145,000 for the purpose of rural improvement zone projects. The note bears interest at 3.60% per annum and is payable solely from TIF receipts generated by the rural improvement zone. During the year ended June 30, 2023, the Trustees paid principal of \$49,000 and interest of \$34,579 on the note. The note matures on June 1, 2038.

A summary of the annual principal and interest requirements to maturity is as follows:

| Year Ending June 30, | Issued Nov 28, 2018 | | | Issued Jul 29, 2022 | | |
|----------------------------|---------------------|--------------------------------|----------------|---------------------|---------------------|----------------|
| | Interest Rate | November 28, 2018 Principal | Interest | Interest Rate | Principal | Interest |
| 2024 | 4.15% | \$ 64,000 | 53,493 | 3.60% | \$ 56,000 | 39,456 |
| 2025 | 4.15 | 66,000 | 50,838 | 3.60 | 58,000 | 37,440 |
| 2026 | 4.15 | 69,000 | 48,099 | 3.60 | 61,000 | 35,352 |
| 2027 | 4.15 | 72,000 | 45,235 | 3.60 | 63,000 | 33,156 |
| 2028 | 4.15 | 75,000 | 42,247 | 3.60 | 65,000 | 30,888 |
| 2029-2033 | 4.15 | 424,000 | 161,933 | 3.60 | 362,000 | 117,648 |
| 2034-2038 | 4.15 | 519,000 | 66,317 | 3.60 | 431,000 | 47,700 |
| Total | | <u>\$ 1,289,000</u> | <u>468,162</u> | | <u>\$ 1,096,000</u> | <u>341,640</u> |

| Year Ending June 30, | Total | | |
|----------------------------|---------------------|----------------|------------------|
| | Principal | Interest | Total |
| 2024 | \$ 120,000 | 92,949 | 212,949 |
| 2025 | 124,000 | 88,278 | 212,278 |
| 2026 | 130,000 | 83,451 | 213,451 |
| 2027 | 135,000 | 78,391 | 213,391 |
| 2028 | 140,000 | 73,135 | 213,135 |
| 2029-2033 | 786,000 | 279,581 | 1,065,581 |
| 2034-2038 | 950,000 | 114,017 | 1,064,017 |
| Total | <u>\$ 2,385,000</u> | <u>809,802</u> | <u>3,194,802</u> |

(4) 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 800 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, employment practices liability, public officials liability, cyber liability and law enforcement liability. 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 from its operating funds at the time of payment to the Pool. The Rural Improvement Zone's contributions to the Pool for the year ended June 30, 2023 were \$5,684.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, employment practices, law enforcement, cyber, 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. As of June 30, 2022, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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.

(5) Subsequent Event

On July 24, 2023, Diamondhead Lake Rural Improvement Zone entered into a contract agreement with the Long Branch Maintenance Corporation (LBMC) not to exceed \$158,400. The term of the contract commences on July 24, 2023 and shall be completed by no later than November 30, 2024. The contract provides for LBMC to operate the dredge equipment to provide dredging services related to public need on Diamondhead Lake.

Pursuant to the contract agreement, LBMC will remove silt from Diamondhead Lake in Dexter, Iowa according to a dredge plan to be reviewed and approved by the Rural Improvement Zone in advance of operation of the Dredge. LBMC is required to remove not less than 60,000 cubic yards of silt during the contract term, subject to weather, the condition of the dredge, and water level conditions as reasonably determined by the parties to the agreement. The contract requires LBMC within ten business days following the end of each month, to provide the Rural Improvement Zone a report identifying the amount of silt removed in its best estimate, number of crew hours, fuel consumed, and the number of engine hours performed in that period. LBMC is responsible for all liability insurance coverage, all maintenance and repair costs that may be needed, and all labor costs incurred while dredging. Diamondhead Lake Rural Improvement Zone is responsible for fuel up to a total amount of \$40,000.

Other Information

Diamondhead Lake Rural Improvement Zone
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balances –
 Budget and Actual – General Fund

Other Information

Year ended June 30, 2023

| | Actual | Budgeted Amounts | | Final Actual Variance |
|--|--------------|---------------------|-------------|-----------------------------|
| | | Original | Final | |
| Receipts: | | | | |
| Tax increment financing | \$ 263,707 | 307,025 | 307,025 | (43,318) |
| Interest on investments | 42,632 | - | - | 42,632 |
| Miscellaneous | 655,623 | - | - | 655,623 |
| Total receipts | 961,962 | 307,025 | 307,025 | 654,937 |
| Disbursements: | | | | |
| Maintenance and improvement | 921,502 | 1,030,000 | 1,180,000 | (258,498) |
| Debt payments | 200,604 | 117,025 | 200,604 | - |
| Total disbursements | 1,122,106 | 1,147,025 | 1,380,604 | (258,498) |
| Deficiency of receipts under disbursements | (160,144) | (840,000) | (1,073,579) | 913,435 |
| Other financing sources | 1,098,600 | 1,100,000 | 1,100,000 | (1,400) |
| Excess of receipts over disbursements and other financing sources | 938,456 | 260,000 | 26,421 | 912,035 |
| Cash balance beginning of year | 341,150 | 317,372 | 317,372 | 23,778 |
| Cash balance end of year | \$ 1,279,606 | 577,372 | 343,793 | 935,813 |

See accompanying independent auditor's report.

Diamondhead Lake Rural Improvement Zone

Notes to Other Information – Budgetary Reporting

June 30, 2023

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, one budget amendment increased budgeted disbursements by \$233,579. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2023, disbursements did not exceed amounts 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Diamondhead Lake Rural Improvement Zone, Dexter, Iowa, as of and for the year ended June 30, 2023, 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 October 9, 2023. 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Improvement Zone's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Improvement Zone's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 that a material misstatement of the 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 that 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Diamondhead Lake Rural Improvement Zone's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances on 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, 2023 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 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.

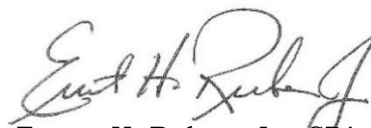
Diamondhead Lake Rural Improvement Zone's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Rural Improvement Zone's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Rural Improvement Zone's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

October 9, 2023

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2023

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over financial reporting were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2023

Other Findings Related to Required Statutory Reporting:

2023-A Certified Budget – Disbursements during the year ended June 30, 2023 did not exceed the amount budgeted.

2023-B Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------------------------------|----------------|---------------|
| Denco Highway Construction Corp. | Sales tax | \$ 1,013 |

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

As a governmental entity, the Rural Improvement Zone maintains a tax-exempt status. As a result, the Rural Improvement Zone should not incur sales tax.

Recommendation – The Rural Improvement Zone should implement procedures to ensure sales tax is not paid for purchases and contact the Iowa Department of Revenue regarding a refund.

Response – Agree, typically in all cases sales tax certificates of exemption are provided. This was an unusual circumstance. This tax will try and be collected directly from the state.

Conclusion – Response accepted.

2023-C Travel Expense – No disbursements of Rural Improvement Zone money for travel expenses of spouses of Rural Improvement Zone officials or employees were noted.

2023-D Restricted Donor Activity – No transactions were noted between the Board of Trustees, Rural Improvement Zone officials, Rural Improvement Zone employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

2023-E Bond Coverage – Surety bond coverage for the Trustees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

2023-F Rural Improvement Zone Minutes – No transactions were found that we believe should have been approved in the Trustee minutes but were not.

2023-G 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.

Diamondhead Lake Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2023

- 2023-H 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.
- 2023-I Tax Increment Financing – The Diamondhead Lake Rural Improvement Zone properly disbursed payments for TIF principal and interest on certificates, contracts or other obligations approved by the Board. Also, the Diamondhead Lake Rural Improvement Zone properly completed the Tax Increment Debt Certificate Forms to request TIF property taxes.

Diamondhead Lake Rural Improvement Zone

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
Cole L. Hocker, CPA, Manager
Laurel P. Hoogensen, Staff Auditor