

**SAMPLE RURAL IMPROVEMENT ZONE**

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

**JUNE 30, 2019**

Office of

**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



**Rob Sand**  
**Auditor of State**





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

Rob Sand  
Auditor of State

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Des Moines, Iowa 50319-0004

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Practitioners:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of Rural Improvement Zones should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

This sample report has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The format displays the basic financial statements and other information (except for the Management's Discussion and Analysis, see Additional Notes 1) and the Schedule of Findings which are necessary to meet the requirements of this Office. The detail presented in the financial statements and other information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the Rural Improvement Zone feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Rural Improvement Zones with \$750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the Rural Improvement Zone's cognizant or oversight agency.

In accordance with the Uniform Guidance, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated e-mails from the Federal Audit Clearinghouse as verification of the submission.

Under Rule 15c 2-12 of the Securities and Exchange Commission governing ongoing disclosure by municipalities to the bond markets, virtually any municipality which issues more than one million dollars of securities per issue is subject to an ongoing filing responsibility. All continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (text-searchable PDF), i.e. not scanned.

The findings on compliance, items (1) through (7), detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11.14 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the Rural Improvement Zone for the notification. We have developed a standard news release to be used for this purpose. The news release (paper copy or electronic format) should be completed by the CPA firm or the Rural Improvement Zone and submitted to this Office with a **text-searchable** electronic copy of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make the audit report and news release available to the news media in this Office.

In accordance with Chapter 11.6(7) of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the state.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and "S".

Rob Sand  
Auditor of State

**Office of Auditor of State**

**Report Filing Requirements**

**Report** – The Rural Improvement Zone or CPA firm is required to submit an electronic **text-searchable**, PDF copy of the audit report, including the management letter(s) if issued separately, with this Office upon release to the Rural Improvement Zone within nine months following the end of the fiscal year subject to audit. Text-searchable files are required for the following reasons:

- The files created are much smaller in size than scanned-image files. Accordingly, text-searchable files require less storage space.
- Text-searchable files are required by the Census bureau when submitting Data Collection Forms and Single Audit reporting packages (i.e. consistent with Federal requirements).
- Text-searchable files provide transparency to the public.

**Per Diem Audit Billing & News Release** – A copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should also be submitted. These items can be submitted as either paper copies or electronic copies.

**Filing Fee** – The filing fee should be submitted based on the following designated budget strata:

Budgeted Expenditures in Millions of Dollars	Filing Fee Amount
Under 1	\$ 100
At least 1 but less than 3	175
At least 3 but less than 5	250
At least 5 but less than 10	425
At least 10 but less than 25	625
25 and over	850

**Submission** – Electronic submission (text-searchable PDF) of the audit report, per diem audit billing and news release should be e-mailed to [SubmitReports@auditor.state.ia.us](mailto:SubmitReports@auditor.state.ia.us).

If you are unable to e-mail the PDF files, you may mail a CD containing the files to this Office. You may direct any questions about submitting electronic files to the above e-mail address.

Paper copies (if not submitted electronically) of the per diem audit billing and news release, as well as the filing fee, should be sent to the following address:

Office of Auditor of State  
State Capitol Building  
Room 111  
1007 East Grand Avenue  
Des Moines, IA 50319-0001

## **Sample Rural Improvement Zone**

### **Outline of Major Changes**

- A. Added Additional Note number 1 to address the Management's Discussion and Analysis (MD&A) for entities reporting on a cash basis. This illustrative sample report assumes management has voluntarily elected to include the MD&A.
- B. Revised the news release included in this Sample Rural Improvement Zone report to include information on the findings identified during the audit.

### **Additional Notes**

- 1. Management's Discussion and Analysis (MD&A), which is part of Other Information, is not a required part of the financial statements for entities reporting on a cash basis and it is, therefore, not required by this Office. If the Rural Improvement Zone elects to include an MD&A with the financial statements, it should be based on the applicable standards that apply to GAAP reporting and be reported as Other Information.
- 2. If the Rural Improvement Zone has deposits in credit unions at June 30, 2019, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the Rural Improvement Zone or the Rural Improvement Zone's agent in the Rural Improvement Zone's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
- 3. Section 403.23 of the Code of Iowa requires Rural Improvement Zones with urban renewal areas to approve and file an Annual Urban Renewal Report on or before December 1.

It also requires an audit of Rural Improvement Zones to include an examination of the Rural Improvement Zone's compliance with the annual urban renewal reporting requirements. As such, the auditor is required to include a statutory comment on the Annual Urban Renewal Report, regardless of whether there are any instances of non-compliance or not. An example to report non-compliance is included as item (7) in the Schedule of Findings. The following is an example statutory comment if no instances of non-compliance are noted:

Annual Urban Renewal Report – The Annual Urban Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

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OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

Contact:

FOR RELEASE \_\_\_\_\_

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

**FINANCIAL HIGHLIGHTS:**

The Rural Improvement Zone's receipts totaled \$\_\_\_\_\_ for the year ended June 30, 2019, a(n) \_\_\_% increase (decrease) from the prior year. Disbursements for the year ended June 30, 2019 totaled \$\_\_\_\_\_, a(n) \_\_\_% increase (decrease) from the prior year. The significant increase (decrease) in receipts and disbursements is due primarily to \_\_\_\_\_.

**AUDIT FINDINGS:**

Sand reported five findings related to the receipt and disbursement of taxpayer funds. They are found on pages 23 through 25 of this report. The findings address issues such as lack of segregation of duties, disbursements exceeding budgeted amounts and errors related to the certification of the annual urban renewal report. Sand provided the Rural Improvement Zone with recommendations to address each of the findings.

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

**(NOTE to CPAs: Include significant findings, including material weaknesses, significant non-compliance and all Federal findings. Auditor judgement should be used to determine which significant deficiencies reported under Government Auditing Standards, if any, should be included.)**

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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**SAMPLE RURAL IMPROVEMENT ZONE**

**INDEPENDENT AUDITOR'S REPORTS  
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**JUNE 30, 2019**



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**Sample Rural Improvement Zone**

**Board of Trustees**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Smith	President	August 2021
Sarah Recorder	Clerk	August 2021
Richard Jones	Treasurer	August 2019
Jim Johnson	Trustee	August 2020
Ron Adams	Trustee	August 2019



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Independent Auditor's Report

To the Trustees of the Sample 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 Sample Rural Improvement Zone, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the Rural Improvement Zone's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Rural Improvement Zone's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rural Improvement Zone's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

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

## Basis of Accounting

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

## Other Matters

### *Other Information*

The Other Information, Management's Discussion and Analysis (**delete reference to the MD&A if excluded from reporting**) and the Budgetary Comparison Information on pages 7 through 10 and 19 through 20, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2019 on our consideration of the Sample 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 Sample Rural Improvement Zone's internal control over financial reporting and compliance.

Marlys K. Gaston, CPA  
Deputy Auditor of State

September 17, 2019

**(NOTE: Delete the MD&A if management has elected to exclude it from reporting)**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Sample Improvement Zone provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Sample 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 decreased 7.2%, or approximately \$18,000, from fiscal year 2018 to fiscal year 2019. Tax increment financing receipts increased approximately \$82,000 and loan proceeds decreased \$100,000.
- Disbursements of the Rural Improvement Zone's governmental activities decreased 5.0%, or approximately \$10,000, in fiscal year 2019 from fiscal year 2018. Dredging and debt service disbursements increased \$30,000 and \$25,000, respectively, while erosion control and land acquisition disbursements decreased \$40,000 and \$25,000, respectively.
- The Rural Improvement Zone's total cash basis net position increased 42.2%, or approximately \$39,000, from June 30, 2018 to June 30, 2019.

### **USING THIS ANNUAL REPORT**

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

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

## **BASIS OF ACCOUNTING**

The Rural Improvement Zone maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Rural Improvement Zone are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE RURAL IMPROVEMENT ZONE'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

### *Fund Financial Statement*

Governmental funds account for the Rural Improvement Zone's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Debt Service Fund. The governmental fund financial statement provides a detailed 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 increased from \$91,540 to \$130,140. 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	\$ 232,000	150,000
Unrestricted interest on investments	100	140
Loan proceeds	-	100,000
Total receipts	<u>232,100</u>	<u>250,140</u>
Disbursements:		
Maintenance and improvements:		
Dredging	30,000	-
Erosion control	130,000	170,000
Land acquisition	-	25,000
Administration	2,000	800
Professional fees	1,500	2,800
Debt Service:		
Loan principal repaid	20,000	-
Interest on loan	10,000	5,000
Total disbursements	<u>193,500</u>	<u>203,600</u>
Change in cash basis net position	38,600	46,540
Cash basis net position beginning of year	<u>91,540</u>	<u>45,000</u>
Cash basis net position end of year	<u>\$ 130,140</u>	<u>91,540</u>

The Rural Improvement Zone's total receipts for governmental activities decreased 7.2%, or approximately \$18,000 from the prior year. The total cost of all programs and services decreased approximately \$10,000, or 5.0%. The decrease in receipts was primarily the result of loan proceeds received in the prior year, offset by an increase in tax increment financing receipts of approximately \$82,000 in fiscal year 2019.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Sample Rural Improvement Zone completed the year, its governmental funds reported a combined fund balance of \$130,140, an increase of approximately \$39,000 above last year's total of \$91,540. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$38,600 over the prior year to \$130,140. This increase is due to an increase in tax increment financing receipts of \$82,000, partially offset by a decrease in loan proceeds of \$100,000.
- The Debt Service Fund does not maintain a cash balance. Transfers are made from the General Fund to the Debt Service Fund for debt payments. During the year ended June 30,

2019, principal of \$20,000 and interest of \$10,000 was paid on the outstanding rural improvement zone notes.

### **BUDGETARY HIGHLIGHTS**

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

For the year ended June 30, 2019, the Rural Improvement Zone disbursements exceeded the amount budgeted in the maintenance and improvement program.

### **DEBT ADMINISTRATION**

The Rural Improvement Zone had \$180,000 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 \$180,000 is significantly below its constitutional debt limit of approximately \$1 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**

Sample Rural Improvement Zone's elected officials considered many factors when setting the fiscal year 2020 budget. Budgeted disbursements are expected to increase approximately \$20,000 over the fiscal year 2019 actual disbursements due to an increase in debt payments. The total ending fund balance is expected to be approximately \$110,000 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 Sample Rural Improvement Zone, 101 Main Street, Sample City, Iowa 50XXX-XXXX.

**Sample Rural Improvement Zone**

## **Basic Financial Statements**

**Exhibit A**

## Sample Rural Improvement Zone

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts			Net (Disbursements)
	Charges for Disbursements	Operating Grants, Contributions and Restricted Service Interest		Receipts and Changes in Cash Basis Net Position Governmental Activities
<b>Functions/Programs:</b>				
Governmental activities:				
Maintenance and improvements:				
Dredging	\$ 30,000	-	-	(30,000)
Erosion control	130,000	-	-	(130,000)
Administration	2,000	-	-	(2,000)
Professional fees	1,500	-	-	(1,500)
Debt service	30,000	-	-	(30,000)
Total	\$ 193,500	-	-	(193,500)
<b>General Receipts:</b>				
Tax increment financing				232,000
Unrestricted interest on investments				100
Total general receipts				232,100
Change in cash basis net position				38,600
Cash basis net position beginning of year				91,540
Cash basis net position end of year				\$ 130,140
<b>Cash Basis Net Position</b>				
Restricted for rural improvement zone purposes				\$ 130,140

See notes to financial statements.

Sample 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

	General Fund	Debt Service	Total
<b>Receipts:</b>			
Tax increment financing	\$ 232,000	-	232,000
Use of money and property	100	-	100
Total receipts	232,100	-	232,100
<b>Disbursements:</b>			
Maintenance and improvement:			
Dredging	30,000	-	30,000
Erosion control	130,000	-	130,000
Administration	2,000	-	2,000
Professional fees	1,500	-	1,500
Debt service:			
Loan principal repayments	-	20,000	20,000
Interest on loan	-	10,000	10,000
Total disbursements	163,500	30,000	193,500
Excess (deficiency) of receipts over (under) disbursements	68,600	(30,000)	38,600
Other financing sources (uses):			
Transfers in	-	30,000	30,000
Transfers out	(30,000)	-	(30,000)
Total other financing sources (uses)	38,600	-	38,600
Change in cash balances	38,600	-	38,600
Cash balances beginning of year	91,540	-	91,540
Cash balances end of year	\$ 130,140	-	130,140
<b>Cash Basis Fund Balances</b>			
Restricted for rural improvement purposes	\$ 130,140	-	130,140

See notes to financial statements.

Sample Rural Improvement Zone

Notes to Financial Statements

June 30, 2019

**(1) Summary of Significant Accounting Policies**

The Sample 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 Sample private development in rural Sample County.

A. Reporting Entity

For financial reporting purposes, the Sample 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 funds. Major individual governmental funds are reported as separate columns in the fund financial statement.

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 of the Rural Improvement Zone.

The Debt Service Fund is utilized to account for the payment of principal and interest on the Sample Rural Improvement Zone's general long-term debt.

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, 2019, disbursements exceeded the amount budgeted in the maintenance and improvement program.

**(2) Cash and Investments**

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

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

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

**(3) Long-Term Liabilities**

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

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Bank loan	\$ 200,000	-	20,000	180,000

On November 29, 2016, the Rural Improvement Zone issued a promissory note to J.R. Ewing for \$100,000 with interest at 5.00% per annum payable annually. The note matured on November 29, 2017 but was extended until November 29, 2019.

On July 10, 2017, the Rural Improvement Zone issued a promissory note to the Sample Owners Association, Inc. for \$100,000 with interest at 5.00% per annum payable annually. The note matured on July 10, 2018 but \$80,000 of the note was extended until July 10, 2019.

The Rural Improvement Zone's loans include a provision that in an event of default the outstanding amounts become immediately due.

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

Year Ending June 30,	Interest Rate	<u>Nov 29, 2016</u>		Interest Rate	<u>July 10, 2017</u>		Total
		<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>	
2020	5.00%	<u>\$ 100,000</u>	<u>5,000</u>	5.00%	<u>\$ 80,000</u>	<u>4,000</u>	<u>189,000</u>

During the year ended June 30, 2019, the Rural Improvement Zone paid \$5,000 of interest on the note dated November 29, 2016 and \$20,000 of principal and \$5,000 of interest on the note dated July 10, 2017.

**(4) Risk Management**

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

**(5) Subsequent Event**

On July 14, 2019, the Rural Improvement Zone issued a promissory note to the Sample Owners Association, Inc. for \$80,000 with interest of 5.00% per annum payable annually. The note matures on July 10, 2020.

## **Other Information**

Sample Rural Improvement Zone

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

Other Information

Year ended June 30, 2019

	Actual	Budgeted Amounts Original/ Final	Final to Actual Variance
Receipts:			
Tax increment financing	\$ 232,000	235,000	(3,000)
Interest on investments	100	500	(400)
Miscellaneous	-	100	(100)
Total receipts	232,100	235,600	(3,500)
Disbursements:			
Maintenance and improvement	163,500	150,000	(13,500)
Debt service	30,000	30,000	-
Total disbursements	193,500	180,000	(13,500)
Excess of receipts over disbursements	38,600	55,600	(17,000)
Other financing sources	-	-	-
Excess of receipts over disbursements and other financing uses	38,600	55,600	(17,000)
Cash balance beginning of year	91,540	100,000	(8,460)
Cash balance end of year	\$ 130,140	155,600	(25,460)

See accompanying independent auditor's report.

Sample Rural Improvement Zone

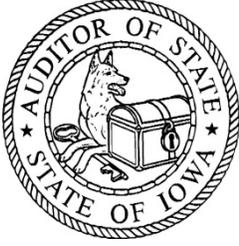
Notes to Other Information – Budgetary Reporting

June 30, 2019

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing 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 disbursements by fund. Disbursements required to be budgeted include disbursements for the General Fund and the Debt Service Fund.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted for maintenance and improvement in the General Fund.



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Rob Sand  
Auditor of State

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 Sample 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 Sample 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 September 17, 2019. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Sample 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 Sample Rural Improvement Zone's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sample 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 Sample 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 Sample Rural Improvement Zone's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Rural Improvement Zone's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Rural Improvement Zone. Since our audit was based on tests and 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.

### Sample Rural Improvement Zone's Responses to the Findings

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

September 17, 2019

Sample 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 preparing bank reconciliations.

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 – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the bank statements and reconciliations are presented monthly to the entire Board by the Treasurer. The President or Clerk will review the reconciliation and initial the bank statements and reconciliations to document the review.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Sample 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 exceeded the amount budgeted in the maintenance and improvement program in the General Fund.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, the Board will amend the budget as needed.

Conclusion – Response accepted.

- (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. However, the meeting minutes were not signed.

Recommendation – The Rural Improvement Zone should ensure its meeting minutes are signed to authenticate the meeting records.

Response – The Clerk acknowledges and will sign a printed copy of the Board meeting minutes, once approved by the Board, beginning October 2019.

Conclusion – Response accepted.

- (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, except as follows:

A resolution naming official depositories has not been adopted by the Rural Improvement Zone.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted in accordance with Chapter 12C of the Code of Iowa.

Response – The resolution was inadvertently omitted from the organizational meeting. In the past, the Board of Trustees has formally passed a resolution for this purpose. In the future, the Board of Trustees will ensure an authorizing resolution is included in each annual organization meeting.

Conclusion – Response accepted.

Sample Rural Improvement Zone

Schedule of Findings

Year ended June 30, 2019

- (7) Annual Urban Renewal Report – The Annual Urban Renewal Report was not certified to the Iowa Department of Management on or before December 1.

In addition, the amount reported as TIF debt outstanding excluded a \$100,000 promissory note entered into in July 2017.

Recommendation – The Rural Improvement Zone should file the Annual Urban Renewal Report timely and ensure the debt amounts reported are accurate.

Response – Future reports will be filed timely and will include all debt outstanding at the beginning of the fiscal year plus any entered into during the fiscal year.

Conclusion – Response accepted.

Sample Rural Improvement Zone

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State  
Jerome Warning, CPA, Manager  
Stanley Hood, CPA, Senior Auditor  
Janice Brinkley, CPA, Assistant Auditor