

# **AUDIT REPORT**

RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

For the Year Ended December 31, 2021

**RATH & MEHRER, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

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For the Year Ended December 31, 2021

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RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

OFFICIALS

Linda Anderson	Chairman
Nicole Carlson	Vice Chairman
Karalyn Pitner	Secretary
Bruce Haskins	Treasurer/Accountant
Gary Kundson	Board Member
Mike Montonye	Board Member
Becky Perry-Domres	Board Member

# Rath & Mehrer, P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Rice Lake Recreation Service District  
Minot, North Dakota

### **Report on the Audit of Financial Statements**

#### **Opinions**

We have audited the modified cash basis financial statements of each major fund of the Rice Lake Recreation Service District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major fund of the district as of December 31, 2021, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified 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 the Financial Statements section of our report. We are required to be independent of the district and to meet our ethical responsibilities, in accordance with 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.

#### **Emphasis of Matter - 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 modified 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 the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified 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 district'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 judgment 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 judgment 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 district'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the district'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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2022 on our consideration of the district'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 district'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 district's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 13, 2022

RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

Statement of Net Position - Modified Cash Basis

December 31, 2021

	Major Funds			Total
	General Operating	Sewer Project	Permanent Flood Control	
<b>ASSETS:</b>				
Cash	311,498.66	135,295.14	25,579.32	472,373.12
<b>LIABILITIES:</b>				
Long-Term Liabilities:				
Due Within One Year:				
Special Assessment Bonds Payable		158,000.00		158,000.00
Due After One Year:				
Bank Loans Payable		110,371.15	263,440.14	373,811.29
Special Assessment Bonds Payable		585,000.00		585,000.00
Total Liabilities		853,371.15	263,440.14	1,116,811.29
<b>NET POSITION:</b>				
Unrestricted	311,498.66	(718,076.01)	(237,860.82)	(644,438.17)

The accompanying notes are an integral part of these financial statements.

RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis

For the Year Ended December 31, 2021

	Major Funds			Total
	General Operating	Sewer Project	Permanent Flood Control	
<u>Operating Revenue:</u>				
Special Assessments	122,266.19			122,266.19
Miscellaneous	11,608.13			11,608.13
Total Operating Revenue	133,874.32			133,874.32
<u>Operating Expenses:</u>				
Circle Sanitation - Refuse Charges	18,519.00			18,519.00
Verendye Electric - Utilities	7,778.00			7,778.00
Sewer Maintenance Contract	14,400.00			14,400.00
Accounting Contract	14,400.00			14,400.00
Road Maintenance	75.00			75.00
Sewer Maintenance	16,469.34			16,469.34
Audit Fee	2,500.00			2,500.00
Miscellaneous	9,321.21			9,321.21
Total Operating Expenses	83,462.55			83,462.55
Operating Income	50,411.77			50,411.77
<u>Non-Operating Revenue (Expenses):</u>				
Interest Income	566.79	384.32	2.36	953.47
Sewer Hook-Up Fees		25,975.15		25,975.15
Special Assessments		200,427.08	58,977.68	259,404.76
Debt Service - Interest Payments		(28,670.20)	(14,847.54)	(43,517.74)
- Administrative Fees		(4,490.00)		(4,490.00)
Total Non-Operating Revenue (Expenses)	566.79	193,626.35	44,132.50	238,325.64
Change in Net Position	50,978.56	193,626.35	44,132.50	288,737.41
Net Position - January 1	260,520.10	(911,702.36)	(281,993.32)	(933,175.58)
Net Position - December 31	311,498.66	(718,076.01)	(237,860.82)	(644,438.17)

The accompanying notes are an integral part of these financial statements.



RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

Statement of Cash Flows - Modified Cash Basis

For the Year Ended December 31, 2021

	Major Funds			Total
	General Operating	Sewer Project	Permanent Flood Control	
<u>Cash flows from operating activities:</u>				
Cash received from customers and users	133,874.32			133,874.32
Cash paid to suppliers and employees	(83,462.55)			(83,462.55)
<hr/>				
Net cash provided (used) by operating activities	50,411.77			50,411.77
<hr/>				
<u>Cash flows from capital and related financing activities:</u>				
Special assessments		200,427.08	58,977.68	259,404.76
Hook-Up fees		25,975.15		25,975.15
Principal payment on bank loans		(19,141.44)	(45,704.65)	(64,846.09)
Principal payment on special assessments bonds		(155,000.00)		(155,000.00)
Interest payments		(28,670.20)	(14,847.54)	(43,517.74)
Administrative fees		(4,490.00)		(4,490.00)
<hr/>				
Net cash provided (used) by capital and related financing activities		19,100.59	(1,574.51)	17,526.08
<hr/>				
<u>Cash flows from investing activities:</u>				
Interest income	566.79	384.32	2.36	953.47
<hr/>				
Net increase (decrease) in cash	50,978.56	19,484.91	(1,572.15)	68,891.32
<hr/>				
Cash, January 1	260,520.10	115,810.23	27,151.47	403,481.80
<hr/>				
Cash, December 31	311,498.66	135,295.14	25,579.32	472,373.12
<hr style="border-top: 1px dashed black;"/>				

The accompanying notes are an integral part of these financial statements.



RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2021

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Rice Lake Recreation Service District have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the Rice Lake Recreation Service District has included all funds and has considered all potential component units for which the district is financially accountable, and other organizations for which the nature and significance of their relationships with the district are such that exclusion would cause the district's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the district.

Based on these criteria, there are no component units to be included within the Rice Lake Recreation Service District as a reporting entity.

B. Fund Accounting

The district uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The following funds are used by the district:

General Fund - The general fund is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

Sewer Project Fund - The sewer project fund accounts for federal grants and loans received for the construction of a sanitary sewer system and the collection of special assessments to retire the related debt.

Permanent Flood Control - The permanent flood control fund will account for loans and grants received for the construction of permanent flood control and the collection of special assessments to retire the related debt.

### C. Basis of Accounting

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues and expenses when they result from cash transactions. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

### D. Cash

Cash includes amounts in demand deposits and money market accounts.

### E. Fund Equity

Net Position - Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the service district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent or debt covenants). All other net position is reported as unrestricted.

## Note 2 DEPOSITS

In accordance with North Dakota Statutes, the district maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2021 the district's carrying amount of deposits was \$472,373 and the bank balance was \$479,961. Of the bank balance, \$290,945 was covered by Federal Depository Insurance. The remaining balance of \$189,016 was collateralized with securities held by the pledging financial institution's agent in the government's name.



Credit Risk

The district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

Concentration of Credit Risk

The district does not have a limit on the amount the district may invest in any one issuer.

Note 3 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2021, the following changes occurred in liabilities reported in the long-term liabilities:

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Bank Loans	438,657		64,846	373,811	
Special Assm't Bonds	898,000		155,000	743,000	158,000
Total	<u>1,336,657</u>		<u>219,846</u>	<u>1,116,811</u>	<u>158,000</u>
	=====	=====	=====	=====	=====

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. The district has issued general obligation loans and bonds to provide funds for flood related expenses. General Obligation loans and bonds outstanding at December 31, 2021, are as follows:

Bank Loans Payable

\$576,510 Bank Loan through United Community Bank; interest is at 4.75%.	263,440.14
\$243,713 Bank Loan through United Community Bank; interest is at 4.75%.	110,371.15
Total Bank Loans Payable	<u>373,811.29</u>
	=====

These loans will be repaid as funds become available through the collection of special assessments.



Special Assessment Debt. The district has issued special assessment bonds to provide funds for the construction of a sanitary sewer system. Special assessment bonds outstanding at December 31, 2021, are as follows:

\$2,813,537 Sanitary Sewer System Improvement Bonds of 2006 due in annual installments of \$174,000 to \$78,000 through September 2026; interest is at 2.5%.	743,000.00
	=====

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	158,000.00	18,575.00
2022	165,000.00	14,625.00
2023	168,000.00	10,500.00
2025	174,000.00	6,300.00
2026	78,000.00	1,950.00
Total	<u>743,000.00</u>	<u>51,950.00</u>
	=====	=====

Note 4 RISK MANAGEMENT

The Rice Lake Recreation Service District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The district pays an annual premium to NDRIF for its general liability insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and \$6,300 for public assets.

The district also participates in the State Bonding Fund. The State Bonding Fund currently provides the district with a blanket fidelity bond coverage in the amount of \$197,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

# Rath & Mehrer, P.C.

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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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Rice Lake Recreation Service District  
Minot, North Dakota

We have audited, in accordance with the 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 each major fund of the Rice Lake Recreation Service District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the district's basic financial statements, and have issued our report thereon dated May 13, 2022.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the district's internal control over financial reporting (internal control) as a basis for designing the 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 district's internal control. Accordingly, we do not express an opinion on the effectiveness of the district'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the district'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2021-001, that we consider to be a significant deficiency.



### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the district's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

### **District's Response to Findings**

Government Auditing Standards require the auditor to perform limited procedures on the district's response to the findings identified in our audit and described in the accompanying *Schedule of Findings and Responses*. The district's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 district's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 13, 2022



RICE LAKE RECREATION SERVICE DISTRICT  
Minot, North Dakota

Schedule of Findings and Responses  
For the Year Ended December 31, 2021

**SECTION I - SUMMARY OF AUDIT RESULTS:**

Financial Statements

Type of Auditor's Report Issued:  
Major Funds

Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No
* Significant deficiency(ies) identified?	<u>  X  </u> Yes	<u>      </u> None Reported
Noncompliance Material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

**SECTION II - FINANCIAL STATEMENT FINDING:**

Significant Deficiency

1. 2021-001 Segregation of Duties

*Criteria:* To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

*Condition:* The district has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

*Cause:* The district does not have a large enough staff to properly segregate all duties.

*Effect:* A lack of segregation of duties leads to a limited degree of internal control.

*Recommendation:* We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

*Views of Responsible Officials:* The district is aware of the condition and segregates duties whenever possible.