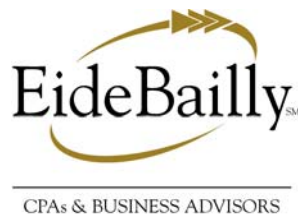




Financial Statements
December 31, 2012 and 2011

Cass Rural Water Users District

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Independent Auditor's Report

The Board of Directors
Cass Rural Water Users District
Kindred, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Cass Rural Water Users District, which comprise the statements of net assets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cass Rural Water Users District as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of directors, officers, and manager and comparative schedules of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative schedule of operations is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The schedule of directors, officers, and manager has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion or provide any assurance on it.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 19, 2013 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, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. Those reports are 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
February 19, 2013

This section of the District's financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the financial statements, which follow this section.

The information in this MDA is presented under the following headings:

- Financial Highlights
- Organization and Business
- Statement of Net Assets Overview
- Capital Assets and Debt Administration
- Statement of Revenues, Expenses and Change in Net Assets Overview
- Request for Information

Financial Highlights

- Assets – Increased nearly \$0.5 million due primarily to the pipeline project funded through U.S. Army Corps of Engineers (COE).
- Operating expenses – Increased nearly 4.7% due to a large increase in purchased water cost associated with the ethanol plant and areas surrounding Davies High School in Fargo, ND.

Organization and Business

Cass Rural Water Users District provides water service to approximately 3,800 rural residences and 14 communities in Cass County and parts of Trail, Barnes, Ransom and Richland counties serving a total estimated population of 13,000 in a 2,000 square mile service area. The District is a political subdivision of the State of North Dakota pursuant to Chapter 61-35 of the North Dakota Century Code. The District recovers cost of service through user fees.

Statement of Net Assets Overview

	2012	2011
Assets		
Capital assets	\$ 27,806,156	\$ 28,081,308
Other property and investments	13,552,301	13,335,151
Current assets	3,386,845	2,899,200
Total assets	\$ 44,745,302	\$ 44,315,659
Net Assets		
Invested in capital assets, net of related debt	\$ 6,123,749	\$ 5,540,042
Restricted for debt service	1,992,358	1,310,870
Unrestricted	14,592,907	13,601,873
Total net assets	22,709,014	20,452,785
Liabilities		
Long-term debt, less current maturities	20,629,282	21,485,690
Other liabilities	1,407,006	2,377,184
Total liabilities	22,036,288	23,862,874
Total net assets and liabilities	\$ 44,745,302	\$ 44,315,659

The total assets of the District increased by 0.9% from \$44.3 million to \$44.7 million. The increase in total assets is broken down as follows:

Water Plant in service	(\$275,000)
Current Assets	480,000
Other Property and Investments	165,000

During 2009, per terms of the "Memorandum of Understanding" with the City of Fargo and Tharaldson Ethanol Group, the District executed a bill of sale which transferred ownership of a water treatment plant constructed on land owned by the City of Fargo to the city. In return the City of Fargo is committed to sell water to the District for resale to Tharaldson Ethanol for a period of 20 years. Additional terms of the agreement require Tharaldson Ethanol Group and the City of Fargo to make all debt payments for the project. The repayment contract also includes a guarantee from Mr. Gary Tharaldson and Tharaldson Hotels. The District holds an escrow account as additional security for the debt associated with this project.

Current assets increased by nearly \$500,000. This was a result of increase accounts receivable for Special Assessments.

The net assets of the District increased by a little over \$2.2 million.

Capital Assets and Debt Administration

At the end of 2012, the District had \$41.3 million (net of accumulated depreciation) in a broad range of utility capital assets and other property. The investment in capital and other property assets includes land, buildings, improvements, water treatment plants, water transmission and distribution mains, water storage facilities, pump stations, machinery, equipment and certain intangible assets. The District's net revenue, long term debt and contributions from customers are used to finance these capital investments. More detailed information concerning the additions and retirements appears later in this document in note 5 of the financial statements.

As of December 31, 2012 the District had a total long term debt including current maturities outstanding of \$20,894,327. The District invests funds in certificates of deposit and other similar investments in such a manner so that as these investments mature funds are available to make the necessary payments. As of December 31, 2012 the District had funds on hand to make all debt payments through the year 2014. The details of the various debt instruments are presented in more detail in note 6 of the financial statements.

Statement of Revenues, Expenses and Change in Net Assets Overview

	2012	2011
Total Revenues	\$ 6,486,550	\$ 7,862,409
Total Expenses	5,002,071	4,816,815
Income	1,484,479	3,045,594
Capital Contributions		
Special assessment	771,750	-
Change in Net Assets	2,256,229	3,045,594
Net Assets, Beginning of Year	20,452,785	17,407,191
Net Assets, End of Year	\$ 22,709,014	\$ 20,452,785

Overall operating expenses increased by 4% or approximately \$185,000. Most areas of cost were either stable or saw minor decreases. However, purchased water costs increased by over \$195,000 as a consequence of water purchases made from the City of Fargo. Depreciation expense increased by approximately \$88,000 during 2012.

Non-operating revenues (expenses) decreased due to increased insurance payments associated with the U.S Army Corps of Engineers (COE) Project construction that occurred in 2012. Due to lower interest rates, investment income decreased by a little over \$12,000. Franchise fee payments from West Fargo increased by \$14,000 due to an increase in hookups in 2012. During 2009 the District was awarded a construction grant from the U.S. Army Corps of Engineers (COE). Terms of the grant agreement call for the COE to reimburse the District 75% of all approved construction costs up to \$5,000,000. The resulting \$3,750,000 grant will allow the District to make major headway on its Capital Improvements Program. Bids for the project were opened in October with construction to begin in the spring of 2010. In late 2012 the final payments were paid and the project was completed.

Factors Bearing on the District's Future

There are a number of factors or issues that have a bearing on the future of Cass Rural Water District that can be broken down as follows:

- **Water Supply** – Cass Rural Water District is dependent on ground water as its primary source of water. One of the three aquifers the District utilizes has a finite life of perhaps another 25 to 30 years. As a result the District has been very active with the Lake Agassiz Water Authority to develop a more dependable source of water.
- **Territorial Integrity** – Due to the rapid growth of the urban areas around Fargo and West Fargo both cities have extended their boundaries into areas that overlap the District's boundary. To date the District has been able to negotiate reasonable arrangements with both cities to address these territorial issues. The District will continue to foster good working relationships with Fargo and West Fargo as well as making an effort to keep abreast of any legal developments in this area of federal law.
- **Federal Regulation** – Each year the Environmental Protection Agency issues new rules for the regulations of public drinking water systems. With each new regulation comes increased cost and additional record keeping requirements. The District is committed to meeting all applicable drinking water standards while keeping costs as reasonable as possible.

Request for Information

This financial report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for monies it receives. If you have any questions about this report or need additional information, please contact: the General Manger, Cass Rural Water District, P.O. Box 98, Kindred, North Dakota 58051.

	2012	2011
Assets		
Water Plant		
In service	\$ 35,900,567	\$ 29,653,257
Construction in progress	7,971	5,933,957
	<u>35,908,538</u>	<u>35,587,214</u>
Total water plant		
Less accumulated depreciation	8,102,382	7,505,906
	<u>27,806,156</u>	<u>28,081,308</u>
Water plant - net		
Other Property and Investments		
Intangible assets, net of accumulated amortization	8,859,876	9,381,045
Special assessment receivable, net of current portion	1,842,635	1,166,175
Patronage capital credits from nonassociated companies	216,200	210,749
Other investments	5,343	103,625
Special funds	2,623,379	2,460,878
	<u>13,547,433</u>	<u>13,322,472</u>
Current Assets		
Cash and cash equivalents	2,288,834	1,461,565
Cash and cash equivalents - restricted	1,997	143,706
Temporary investments	320,631	-
Accounts receivable, less accumulated provision for uncollectible accounts (2012 - \$999, 2011 - \$3,067)	385,817	874,791
Delinquent special assessment receivables	185,608	248,472
Special assessment receivable, current portion	149,723	144,695
Inventory	3,422	3,422
Prepaid Items	44,345	16,081
Interest receivable	6,468	6,468
	<u>3,386,845</u>	<u>2,899,200</u>
Total current assets		
Deferred Debits		
Debt issuance costs, net of accumulated amortization	4,868	12,679
	<u>4,868</u>	<u>12,679</u>
	<u>\$ 44,745,302</u>	<u>\$ 44,315,659</u>

See Notes to Financial Statements

Cass Rural Water Users District
 Statements of Net Assets
 December 31, 2012 and 2011

	2012	2011
Net Assets and Liabilities		
Net Assets		
Invested in capital		
assets, net of related debt	\$ 6,123,749	\$ 5,540,042
Restricted for debt service	1,992,358	1,310,870
Unrestricted	14,592,907	13,601,873
Total net assets	22,709,014	20,452,785
Long - Term Debt,		
Less Current Maturities	20,629,282	21,485,690
Current Liabilities		
Current maturities of long-term debt	1,053,125	1,055,576
Accounts payable	122,394	142,630
Construction payable	-	947,491
Accrued vacation	26,698	26,698
Accrued interest	204,789	204,789
Total current liabilities	1,407,006	2,377,184
	\$ 44,745,302	\$ 44,315,659

Cass Rural Water Users District
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Metered sales to customers	\$ 5,739,943	\$ 5,142,773
Miscellaneous	55,210	58,691
Total operating revenues	5,795,153	5,201,464
Operating Expenses		
Pumping expense	203,983	191,118
Water treatment and testing expense	121,675	120,400
Transmission and distribution expense	454,160	469,867
Administrative and general expense	672,424	759,965
Purchased water	1,424,307	1,228,588
Depreciation expense	667,926	579,315
Amortization expense	521,169	525,481
Taxes	44,107	50,273
Total operating expenses	4,109,751	3,925,007
Operating Income	1,685,402	1,276,457
Nonoperating Revenues (Expenses)		
Interest on special assessments	163,891	74,158
Investment income	39,729	52,059
Franchise fee payment	70,224	55,440
Grant revenue	-	1,416,481
Membership revenue	1,500	16,450
Surety revenue	318,565	1,012,209
Miscellaneous revenue	97,488	34,148
Interest expense	(892,320)	(891,808)
Total nonoperating revenues (expenses), net	(200,923)	1,769,137
Income Before Contributions	1,484,479	3,045,594
Capital Contributions		
Special assessments	771,750	-
Change in Net Assets	2,256,229	3,045,594
Net Assets, Beginning of Year	20,452,785	17,407,191
Net Assets, End of Year	\$ 22,709,014	\$ 20,452,785

Cass Rural Water Users District
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Operating cash receipts from customers	\$ 7,055,877	\$ 4,634,730
Cash payments to suppliers for goods and services	(828,318)	(834,747)
Cash payments to employees for services	(672,424)	(755,147)
Miscellaneous payments	(1,481,943)	(1,271,051)
	4,073,192	1,773,785
Investing Activities		
Purchase of investments	(634,343)	(590,108)
Sale of investments	249,493	812,690
Interest received	39,729	53,249
	(345,121)	275,831
Capital and Related Financing Activities		
Interest payments on debt	(892,320)	(903,585)
Proceeds from long-term borrowings	168,000	346,074
Net (additions) subtractions to special assessments	(357,245)	259,861
Payment of construction payable	(947,491)	(114,581)
Additions to plant	(436,885)	(2,652,553)
Proceeds from sale of plant	60,000	-
Proceeds from grant revenue	-	1,416,481
Proceeds from surety	318,565	1,012,209
Principal payments on long-term debt	(1,026,859)	(1,149,623)
	(3,114,235)	(1,785,717)
Noncapital Financing Activities		
Franchise fee payment	70,224	55,440
Membership revenue	1,500	16,450
	71,724	71,890
Net Cash from Noncapital Financing Activities	71,724	71,890
Net Change in Cash and Cash Equivalents	685,560	335,789
Cash and Cash Equivalents, Beginning of Year	1,605,271	1,269,482
Cash and Cash Equivalents, End of Year	\$ 2,290,831	\$ 1,605,271

Cass Rural Water Users District
 Statements of Cash Flows
 Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activity Reconciliation		
Operating income	\$ 1,685,402	\$ 1,276,457
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	667,926	579,315
Amortization of debt expense	7,811	7,810
Amortization of intangible assets	521,169	525,481
Gain on sale of plant & equipment	(21,340)	-
Changes in assets and liabilities		
Accounts receivable	1,260,724	(566,734)
Prepayments	(28,264)	(5,154)
Accounts payable	(20,236)	(48,208)
Accrued vacation	-	4,818
	\$ 4,073,192	\$ 1,773,785
Net Cash from Operating Activities		
Noncash Investing Activities		
Patronage capital credit	\$ (5,451)	\$ (17,551)
Increase in additions to plant due to construction payable	\$ -	\$ 947,491
Capital contribution recognized by special assessment	\$ 771,750	\$ -

Note 1 - Organization and Nature of Operations

The District was organized and formally incorporated as of November 6, 1973, for the express purpose of providing water service in the state of North Dakota for the use and benefit of its members on a cooperative basis. Effective September 1, 2002, the organization reorganized as a water district under the authority of the North Dakota Century Code.

Note 2 - Summary of Significant Accounting Policies

General

The public utility activities of Cass Rural Water Users District (District) are non-regulated as such. However, the District follows the National Association of Regulatory Utility Commissioners' Uniform System of Accounts prescribed for Class A and B Water Utilities.

Reporting entity

For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within Cass Rural Water Users District as a reporting entity.

Basis of Accounting

The District has adopted GASB statement No. 20 "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*". The District has elected to apply all applicable GASB pronouncements as well as private-sector pronouncements, issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The District has also elected not to apply private-sector pronouncements issued after November 30, 1989.

Receivable and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Customers are charged a one time 10% charge for late payments. The receivables are non-interest bearing. Payments on trade receivables are applied to the latest unpaid invoices. The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Notes receivable are stated at principal amounts plus accrued interest and are uncollateralized.

Cash and Cash Equivalents

The District's cash and cash equivalents consist of all cash sources and certificates of deposit that have an original maturity of three months or less.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense at the time of consumption.

Investments

Investments in asset backed securities are reported at fair value. Fair value is determined based on quoted market prices if available or estimated fair value using quoted market prices for similar securities. Interest, dividends, gains and losses, both realized and unrealized, on investments in debt and equity securities are included in other income (deductions).

Special Funds

Several of the District's loan agreements require funds to be set aside in a reserve account. These amounts are reported as "special funds" on the Statement of Net Assets. At December 31, 2012 and 2011, the District has complied with the reserve account requirements of the loan agreements.

Plant Additions and Retirements

Utility plant is stated at cost. The cost of additions to utility plant includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost, less net salvage, is charged to accumulated provision for depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense. Capital assets are defined by the District as assets with an initial, individual cost equal to or greater than \$500, except for plant which is capitalized in their entirety.

Depreciation

Depreciation is computed on the straight-line method based upon estimated useful lives of the various classes of property. Such provision, as a percentage of the average balance of depreciable property in service, was 2.06% and 1.98% in 2012 and 2011.

Intangible Assets

Intangible assets are stated at amortized cost. The intangible assets are the right to supply treated wastewater and treat the wastewater return flow for a period of years to come. They are being amortized over the life of the agreement, which is over 20 years. The project was completed at the end of 2009. The amortization expense recorded in 2012 and 2011 was \$521,169.

Debt Issuance Costs

These costs are being amortized over the term of the related debt (15 years).

Operating and Nonoperating Revenues and Expenditures

The District reports operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District's are charges to customers for sale of water. Operating expenses for the District include the costs of sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition

Revenue from water sales is reflected in the accounts at the time delivered.

Pension Costs

The policy is to fund pension costs accrued.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business and Credit Risk

The District provides water service on account to its members which are located primarily in Cass County, North Dakota.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact of net income or fund equity.

Note 3 - Long-Term Receivables

Special assessments

During 2004, the District entered into an agreement with the City of Fargo, to sell water within specified properties in the Osgood development located in Fargo. In order to serve the development, the District levied special assessments against the property in the development. The special assessments call for annual payments of \$66,000 plus interest at 5.6% commencing with 2005 and ending 2020.

The District has created one or more improvement districts for the purpose of constructing improvements. For 2006, the improvement districts are Silverleaf and Custer Crossing Water Improvement Districts. To finance such improvements, the District has issued \$303,000 Improvement Bonds of 2006 and has levied assessments on the property in the improvement districts benefited thereby to pay for the bonds. The special assessments call for annual payments varying from \$6,000 to \$24,000 at 5.20% commencing with 2007 and ending 2022.

In 2008, the District issued \$620,000 Improvement Bonds of 2008 and has levied the assessments on the property in the improvement districts benefited thereby to pay for the bonds. The improvement districts are Maple Valley and Prairie Grove Water Improvement Districts. The special assessments call for annual payments varying from \$30,000 to \$55,000 at 4.25% to 5.00% commencing in 2009 and ending 2023.

In 2009, the District issued \$265,000 Improvement Bonds of 2009 and has levied the assessments on the property in the Maple Valley Improvement District to pay for the bonds. The special assessments call for annual payments varying from \$21,000 to \$27,000 at 2.60% to 4.50% commencing in 2010 and ending 2024.

In 2010, the District levied additional assessments on the property in Maple Valley Improvement District to pay for the Improvement Bonds of 2009.

During 2012, the District levied additional assessments on the properties in the Deer Creek, Silverleaf, Maple Valley and other smaller improvement districts. The District also issued Bonds for the levy, see Note 10 for more details.

Note 4 - Deposits, Investments and Investment Income

The District's investments are generally reported at fair value, as discussed in Note 1. At December 31, 2012 and 2011, the District had the following investments, all of which are held in the District's name by various custodial banks that were agents of the District:

As of December 31, 2012, the District has the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
Certificate of Deposits	<u>\$ 1,988,552</u>	<u>\$ 322,588</u>	<u>\$ 1,665,964</u>
Government National Mortgage Association	<u>\$ 174,679</u>	<u>\$ 174,679</u>	<u>\$ -</u>

As of December 31, 2011, the District has the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
Certificate of Deposits	<u>\$ 1,366,000</u>	<u>\$ 465,000</u>	<u>\$ 901,000</u>
Government National Mortgage Association	<u>\$ 246,069</u>	<u>\$ 246,069</u>	<u>\$ -</u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy to limit exposure to credit risk. The asset back securities noted above are not rated.

Concentration of Credit Risk

The District does not have a formal investment policy that limits the total amount of securities that can be held with any one company or government agency.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy to limit exposure to custodial credit risk.

Pledged Collateral

In accordance with North Dakota Century Code, the District maintains deposits at those depository banks and brokerages authorized by the Board of Directors, all of which are covered by Federal Depository Insurance or Securities Investor Protection. Century Code requires that all of the District's deposits be protected by insurance, collateral or surety bond. The market value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. At various times throughout the year, deposits were under-collateralized.

The carrying amount of deposits and investments shown above is in the District's balance sheet as follows:

	2012	2011
Carrying Amount		
Deposits in bank	\$ 3,076,953	\$ 2,557,705
Certificates of deposit	1,988,552	1,366,000
Investments	174,679	246,069
	\$ 5,240,184	\$ 4,169,774
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,288,834	\$ 1,461,565
Cash and cash equivalents - restricted	1,997	143,706
Temporary cash investments	320,631	-
Other investments	5,343	103,625
Special funds	2,623,379	2,460,878
	\$ 5,240,184	\$ 4,169,774

Note 5 - Water Plant And Depreciation

As of December 31, 2012:

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
Classified Water Plant in Service				
Construction in progress	\$ 5,933,957	\$ 1,053,214	\$ 6,979,200	\$ 7,971
Intangible plant				
Organization	3,191	-	-	3,191
Franchises and consents	316	-	-	316
	<u>3,507</u>	<u>-</u>	<u>-</u>	<u>3,507</u>
Distribution plant				
Land and land rights	333,937	61,499	-	395,436
Collecting and impounding reservoirs	3,724,251	-	-	3,724,251
Wells	796,566	-	-	796,566
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	879,725	-	-	879,725
Transmission and distribution mains	15,412,018	6,027,372	3,672	21,435,718
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Services	45	-	-	45
Meters	722,946	101,158	-	824,104
	<u>27,998,869</u>	<u>6,190,029</u>	<u>3,672</u>	<u>34,185,226</u>
General plant				
Structures and improvements	214,595	22,867	-	237,462
Office furniture and equipment	179,442	28,420	-	207,862
Transportation equipment	249,846	27,498	29,118	248,226
Tools, shop and garage equipment	278,995	88,606	77,320	290,281
Other equipment - reservoir monitors	728,003	-	-	728,003
	<u>1,650,881</u>	<u>167,391</u>	<u>106,438</u>	<u>1,711,834</u>
Total water plant	<u>\$ 35,587,214</u>	<u>\$ 7,410,634</u>	<u>\$ 7,089,310</u>	<u>\$ 35,908,538</u>

Accumulated depreciation as of December 31, 2012:

	Depreciation Rates in %	Balance 1/01/12	Accruals	Retirements	Balance 12/31/12
Distribution Plant					
Collecting and impounding reservoirs	2.0	\$ 1,343,335	\$ 74,485	\$ -	\$ 1,417,820
Wells	2.0	230,139	15,931	-	246,070
Electric pumping equipment	5.0	860,796	14,147	-	874,943
Water treatment equipment	5.0	777,641	35,189	-	812,830
Transmission	1.0	3,168,564	319,059	3,672	3,483,951
Meters	4.0	417,923	28,918	-	446,841
Service Leads	1.0	2,117	4,234	-	6,351
Totals - distribution mains		<u>6,800,515</u>	<u>491,963</u>	<u>3,672</u>	<u>7,288,806</u>
General Plant					
Structures and improvements	2.0	85,315	4,292	-	89,607
Office furniture and equipment	10.0-15.0	137,430	15,114	-	152,544
Transportation equipment	33.3	212,457	42,169	29,118	225,508
Tools, shop and garage equipment	15.0	197,389	41,588	38,660	200,317
Reservoir monitors	10.0	72,800	72,800	-	145,600
Totals - general plant		<u>705,391</u>	<u>175,963</u>	<u>67,778</u>	<u>813,576</u>
Totals - all plant		<u>\$ 7,505,906</u>	<u>\$ 667,926</u>	<u>\$ 71,450</u>	<u>\$ 8,102,382</u>

During 2007, the District entered into an agreement with Tharaldson Ethanol Plant I, LLC to design and construct an ethanol plant in the Casselton Township. The total cost of the project was \$15,656,652, and was completed during 2009. The project was financed by the District through a note from the North Dakota Public Finance Authority. Upon completion of the construction project, ownership of \$10,423,383 of plant was transferred to the City of Fargo who is responsible for operation and maintenance of plant. Because the District retains the right to supply treated wastewater and treat the wastewater return flow for the next 20 years, that amount has been recorded as an intangible asset and is being amortized over the life of the agreement. The District will own, operate, and maintain the remaining \$5,233,269.

The City of Fargo is responsible for the repayment of \$1,703,088 of note acquired for construction. The remaining balance is the responsibility of Tharaldson Ethanol Plant I, LLC (Tharaldson). As security for Tharaldson's debt service obligations, the District required personal guarantee of Gary Tharaldson and also Tharaldson Hotels for the bonding and required one year's bond payment (Upfront Deposit) to be held by a mutually agreed-upon third party. Until the bonds are retired, Tharaldson will pay its bond payment amount, plus an additional 20% which the District will place in a reserve fund. Interest earned on the reserve fund will be held for Tharaldson's debt service payment schedule.

Cass Rural Water Users District
Notes to Financial Statements
December 31, 2012 and 2011

As of December 31, 2011:

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
Classified Water Plant in Service				
Construction in progress	\$ 2,589,019	\$ 3,472,602	\$ 127,664	\$ 5,933,957
Intangible plant				
Organization	3,191	-	-	3,191
Franchises and consents	316	-	-	316
	<u>3,507</u>	<u>-</u>	<u>-</u>	<u>3,507</u>
Distribution plant				
Land and land rights	333,409	528	-	333,937
Collecting and impounding reservoirs	3,724,251	-	-	3,724,251
Wells	796,566	-	-	796,566
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	809,433	100,292	30,000	879,725
Transmission and distribution mains	15,384,646	27,372	-	15,412,018
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Services	45	-	-	45
Meters	652,013	70,933	-	722,946
	<u>27,829,744</u>	<u>199,125</u>	<u>30,000</u>	<u>27,998,869</u>
General plant				
Structures and improvements	213,095	1,500	-	214,595
Office furniture and equipment	165,780	13,662	-	179,442
Transportation equipment	254,164	17,246	21,564	249,846
Tools, shop and garage equipment	272,967	6,028	-	278,995
Other equipment - reservoir monitors	728,003	-	-	728,003
	<u>1,634,009</u>	<u>38,436</u>	<u>21,564</u>	<u>1,650,881</u>
Total water plant	<u>\$ 32,056,279</u>	<u>\$ 3,710,163</u>	<u>\$ 179,228</u>	<u>\$ 35,587,214</u>

Cass Rural Water Users District
Notes to Financial Statements
December 31, 2012 and 2011

Accumulated depreciation as of December 31, 2011:

	Depreciation Rates in %	Balance 01/01/11	Accruals	Retirements	Balance 12/31/11
Distribution Plant					
Collecting and impounding reservoirs	2.0	\$ 1,268,851	\$ 74,484	\$ -	\$ 1,343,335
Wells	2.0	214,203	15,936	-	230,139
Electric pumping equipment	5.0	817,044	43,752	-	860,796
Water treatment equipment	5.0	807,641	-	30,000	777,641
Transmission	1.0	2,909,784	258,780	-	3,168,564
Meters	4.0	389,003	28,920	-	417,923
Service Leads	1.0	2,117	-	-	2,117
Totals - distribution mains		<u>6,408,643</u>	<u>421,872</u>	<u>30,000</u>	<u>6,800,515</u>
General Plant					
Structures and improvements	2.0	81,019	4,296	-	85,315
Office furniture and equipment	10.0-15.0	137,430	-	-	137,430
Transportation equipment	33.3	190,948	38,755	17,246	212,457
Tools, shop and garage equipment	15.0	155,797	41,592	-	197,389
Reservoir monitors	10.0	0	72,800	-	72,800
Totals - general plant		<u>565,194</u>	<u>157,443</u>	<u>17,246</u>	<u>705,391</u>
Totals - all plant		<u>\$ 6,973,837</u>	<u>\$ 579,315</u>	<u>\$ 47,246</u>	<u>\$ 7,505,906</u>

Note 6 - Long-Term Debt

	Balance January 1, 2012	Additions	Payments	Balance December 31, 2012	Due within One Year
Bank of North Dakota	\$ 346,312	\$ -	\$ 40,622	\$ 305,690	\$ 41,155
Rural Utilities Service	1,733,976	-	32,433	1,701,543	33,366
State Revolving Fund	1,355,000	-	80,000	1,275,000	95,000
Bond Issue 2006	226,000	-	18,000	208,000	19,000
Radcliffe					
Revocable Trust	115,079	-	6,442	108,637	6,773
North Dakota Public					
Finance Authority ¹	14,625,651	-	645,000	13,980,651	665,000
North Dakota Public					
Finance Authority ²	1,170,000	-	50,000	1,120,000	50,000
Bond Issue 2008	520,000	-	35,000	485,000	35,000
Bremer Bond Issue	896,168	168,000	34,362	1,029,806	22,831
Bond Issue 2009	235,000	-	15,000	220,000	15,000
Bond Issue 2010	530,000	-	70,000	460,000	70,000
Tharaldson Ethanol Escrow	788,080	-	-	788,080	-
	<u>\$ 22,541,266</u>	<u>\$ 168,000</u>	<u>\$ 1,026,859</u>	<u>\$ 21,682,407</u>	<u>\$ 1,053,125</u>
	Balance January 1, 2011	Additions	Payments	Balance December 31, 2011	Due within One Year
Bank of North Dakota	\$ 385,870	\$ -	\$ 39,558	\$ 346,312	\$ 40,348
Rural Utilities Service	1,764,791	-	30,815	1,733,976	31,702
State Revolving Fund	1,435,000	-	80,000	1,355,000	120,000
Bond Issue 2006	244,000	-	18,000	226,000	18,000
Radcliffe					
Revocable Trust	121,207	-	6,128	115,079	6,442
North Dakota Public					
Finance Authority ¹	15,245,651	-	620,000	14,625,651	645,000
North Dakota Public					
Finance Authority ²	1,223,605	-	53,605	1,170,000	50,000
Series 2008 Revenue Bond	115,000	-	115,000	-	-
Bond Issue 2008	555,000	-	35,000	520,000	35,000
Bremer Bond Issue	616,611	346,074	66,517	896,168	24,084
Bond Issue 2009	250,000	-	15,000	235,000	15,000
Bond Issue 2010	600,000	-	70,000	530,000	70,000
Tharaldson Ethanol Escrow	788,080	-	-	788,080	-
	<u>\$ 23,344,815</u>	<u>\$ 346,074</u>	<u>\$ 1,149,623</u>	<u>\$ 22,541,266</u>	<u>\$ 1,055,576</u>

The North Dakota Public Finance Authority has entered into a forward refunding of their bonds. Proceeds of the refunding are allocated to its debtors, including the District, which results in a reduction of future interest payments.

1. The District has a \$17,943,900 Water Treatment Revenue Bond agreement with the state of North Dakota State Revolving Loan Fund. The District has available \$4,053,249 on the loan commitment. The agreement, upon advance, shall be repaid over a period not to exceed 20 years at an interest rate of 4% with principal payments varying from \$620,000 to \$1,115,652.
2. The District has a \$4,213,000 Revenue Bond agreement with the state of North Dakota State Revolving Loan Fund. The District has available \$2,938,000 on the loan commitment. The agreement, upon advance, shall be repaid over a period not to exceed 20 years at an interest rate of 4% with principal payments varying from \$50,000 to \$80,000.

Maturity dates and interest rates are as follows:

	Maturity Date	Interest Rate
Bank of North Dakota	2019	2.00%
Rural Utilities Service	2038	5.125%
State Revolving Fund	2025	2.50%
Bond Issue 2004	2019	3.30 - 4.40%
Bond Issue 2006	2023	5.20%
Radcliffe Revocable Trust	2024	5.02%
North Dakota Public Finance Authority ¹	2028	3.50%
North Dakota Public Finance Authority ²	2029	2.50%
Series 2008 Revenue Bond	2011	4.75%
Bond Issue 2008	2023	4.25 - 5.00%
Bremer Bond Issue	2034	6.25%
Bond Issue 2009	2024	2.6 - 4.5
Bond Issue 2010	2019	1.10 - 3.35%
Tharaldson Ethanol Escrow	2028	-

All assets are pledged as security for these debts. The Bank of North Dakota and Radcliffe Revocable Trust notes require annual payments of principal and interest and the North Dakota Public Finance Authority notes require annual payments of principal and semi-annual payments of interest.

Minimum principal and interest payments required are estimated as follows:

Year ending December 31:	Long-term Debt	
	Principal	Interest
2013	\$ 1,053,125	\$ 838,577
2014	1,089,536	799,576
2015	1,123,170	758,717
2016	1,153,865	716,188
2017	1,195,148	671,659
2018 - 2022	6,242,118	2,641,603
2023 - 2027	6,322,271	1,394,177
2028 - 2032	2,792,927	356,341
2033 - 2037	657,216	93,900
2038	53,031	889
	\$ 21,682,407	\$ 8,271,627

Note 7 - Lease Agreement

The District entered into a lease agreement with the City of Casselton to permit the District to utilize a portion of the storage capacity in the City of Casselton water tower. Under the agreement, the District is liable for 24% of the total shared cost which equates to the District's portion of storage capacity. The agreement will remain in effect for an initial term of 25 years and shall be automatically extended for successive terms of 5 years each unless either entity provides a minimum of 2 years advance written notice of intent to discontinue agreement. In the event the City of Casselton chooses to discontinue this agreement or any extension thereof, the City of Casselton shall remit to the District the initial project cost assumed by the District less accumulated depreciation which shall be calculated using the straight line method with a useful life of 80 years.

Future minimum lease payments are as follows:

2013	\$ 17,946
2014	17,964
2015	17,973
2016	17,973
2017	17,964
2018 - 2023	107,447
	\$ 197,267

The operation and maintenance cost for the water tower shall be the responsibility of the City of Casselton, except that the District shall be liable to the City of Casselton for a portion of said costs of operating and maintenance, as determined on a monthly gallon usage basis attributable to the District. The initial charge to cover these costs shall be \$.20 per 1,000 gallons. The District is expensing these costs as purchased water. Expense for December 31, 2012 and 2011 was \$93,422 and \$14,872, respectively.

Note 8 - Pension Plan

Retirement benefits for substantially all employees are provided through participation in a Simplified Employee Pension Individual Retirement Account. The pension plan is a defined contribution plan to which the employer contributes a variable percentage of employees' gross salaries. The monies are deposited in an Individual Retirement Custodial Account in the name of the employee. The employees may contribute to the plan an amount equal to the legal limitation. The District contributed \$20,750, \$20,006, and \$18,970 to the custodial accounts for the years ended December 31, 2012, 2011, and 2010, respectively.

Note 9 - Commitments

Wholesale Water

Under its wholesale water agreement, the District is committed to purchase water from the City of Fargo. The District must purchase at least 500,000 gallons of treated water per month at \$3.20 per thousand gallons of treated water. This agreement has expired as of December 31, 2011 and another agreement has not been completed as of December 31, 2012. Both parties are operating under the terms of the expired agreement until a new agreement is signed, as no significant changes are expected.

Franchise Fee Agreement

The District entered into an agreement with the City of West Fargo on June 2005 in which the City of West Fargo purchased the rights and acquired a franchise to provide residential water services to the Westport Beach Additions located within the City of West Fargo city limits. In accordance with the agreement, the District agrees to release the Westport Beach Addition from its exclusive jurisdiction to the City of West Fargo as long as the City of West Fargo performs certain obligations, including installation of water meters at its own cost for each individual lot or user within the Westport Beach Addition, and payment of \$1,848 per meter installed to the District until the City of West Fargo has installed a meter for each individual lot within the Westport Beach Addition.

Agreement with the City of Oxbow

The District entered into an agreement with the City of Oxbow to provide billing and collection services for sewer services to the residents of the Bakke Subdivision and the Town of Hickson on a quarterly basis. Specific services to be provided by the District under this agreement included calculation, printing, and mailing of quarterly utility bills, receiving and processing payments from the citizens, account maintenance services such as name changes, adjustments, and address changes, and reasonable and necessary steps to collect amounts due from the citizens. The City of Oxbow agrees to a billing charge for the services provided. The initial cost to the City of Oxbow for the billing charge shall be \$.96 per bill.

Note 10 - Subsequent Events

Subsequent to year end the District issued bonds for the new special assessment improvement districts. The District issued \$1,050,000 of improvement bonds with interest rates ranging between 0.6 – 2.650%



Supplementary Information
December 31, 2012 and 2011

Cass Rural Water Users District

Cass Rural Water Users District
Schedule of Directors, Officers and Manager (Unaudited)
December 31, 2012

<u>Name</u>	<u>Position</u>
Brad Koetz	Chairman
Jon Zuther	Vice Chairman
Jeff Dahl	Secretary/Treasurer
R. Gordon Blixt	Director
Barry Bowman	Director
Keith Burley	Director
Todd Ellison	Director
Ed Finger	Director
Mark Johnson	Director
Jerry Blomeke	Manager

Cass Rural Water Users District
Comparative Schedules of Operations
Years Ended December 31, 2008 - 2012

	2008		2009		2010		2011		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenue	\$ 2,344,600	100.0 %	\$ 4,049,581	100.0 %	\$ 4,417,979	100.0 %	\$ 5,201,464	100.0 %	\$ 5,795,153	100.0 %
Operating Expenses										
Pumping	178,035	7.6	140,687	3.5	179,354	4.1	191,118	3.7	203,983	3.5
Water treatment and testing	96,445	4.1	111,166	2.7	114,006	2.6	120,400	2.3	121,675	2.1
Transmission and distribution	373,962	15.9	377,253	9.3	435,228	9.9	469,867	9.0	454,160	7.8
Administrative and general	590,020	25.2	578,996	14.3	636,796	14.4	759,965	14.6	672,424	11.6
Purchased water	273,907	11.7	811,001	20.0	1,108,542	25.1	1,228,588	23.6	1,424,307	24.6
Depreciation and amortization	300,524	12.8	320,267	7.9	1,004,805	22.7	1,104,796	21.2	1,189,095	20.5
Taxes	36,130	1.5	39,936	1.0	40,341	0.9	50,273	1.0	44,107	0.8
Total operating expense	1,849,023	78.8	2,379,306	58.7	3,519,072	79.7	3,925,007	75.4	4,109,751	70.9
Utility Operating Income	495,577	21.2	1,670,275	41.3	898,907	20.3	1,276,457	24.6	1,685,402	29.1
Other Income (Deductions)										
Investment income	99,786	4.3	70,000	1.7	74,909	1.7	86,207	1.7	137,217	2.4
Interest special assessment	20,881	0.9	94,253	2.3	145,843	3.3	74,158	1.4	163,891	2.8
Special assessment	620,000	26.4	265,000	6.5	108,999	2.5	-	-	771,750	13.3
Franchise fee payment	90,552	3.9	51,744	1.3	94,248	2.1	55,440	1.1	70,224	1.2
Interest expense	(385,921)	(16.5)	(574,468)	(14.2)	(896,478)	(20.3)	(891,808)	(17.1)	(892,320)	(15.4)
Other	21,938	0.9	64,920	1.6	1,946,590	44.1	2,445,140	47.0	320,065	5.5
Total income (deductions)	467,236	19.9	(28,551)	(0.8)	1,474,111	33.4	1,769,137	34.0	570,827	9.9
Net Income	\$ 962,813	41.1 %	\$ 1,641,724	40.5 %	\$ 2,373,018	53.7 %	\$ 3,045,594	58.6 %	\$ 2,256,229	39.0 %



Additional Reports
December 31, 2012 and 2011

Cass Rural Water Users District



***Government Auditing Standards Report on Internal Control
over Financial Reporting and on Compliance and Other Matters***

The Board of Directors
Cass Rural Water Users District
Kindred, North Dakota

We have audited the financial statements of Cass Rural Water Users District as of and for the year ended December 31, 2012, and have issued our report thereon dated February 19, 2013. We conducted our audit 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.

Internal Control over Financial Reporting

Management of Cass Rural Water Users District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our audit procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies and material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 12-1, 12-2, and 12-3 described in the accompanying schedule of findings to be material weaknesses.

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. We consider deficiency 12-4 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

Management's Responsibility for Compliance

Compliance with certain provisions of laws, regulations, contracts and grant agreements related to the Project is the responsibility of the District's management.

Auditor's Responsibility

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 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described on the schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, 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 and other matters. This 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 on compliance and other matters. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
February 19, 2013

A. Findings – Financial Statement Audit

Material Weakness

12-1 Segregation of Duties

Condition – The District has a lack of segregation of duties due to a limited number of office personnel.

Criteria – A good system of internal accounting control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of checks (check signers), record keeping and reconciliation functions.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause – There is a limited amount of office employees involved in the internal control process.

Recommendation – While we recognize that your office staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Management Response – At the present time, the District has segregated the duties of in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

Material Weakness

12-2 Significant Journal Entries

Condition – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District’s existing internal controls, and therefore could have resulted in a material misstatement of the District’s financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Cause – District personnel do not have adequate training to apply U.S. generally accepted accounting principles internally.

Recommendation – While we recognize that your office staff is limited, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Management Response – Due to the limited office staff, the District is aware of the deficiency in internal control. The District accepts the risk and due to cost constraints, there will be no further administrative employees added.

Material Weakness

12-3 Preparation of Financial Statements

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause – District personnel do not have adequate training to apply U.S. generally accepted accounting principles internally.

Effect – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – This circumstance is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – The District is aware of the deficiency in internal control. The District accepts the risk and will not added additional administrative employees due to cost constraints.

Significant Deficiency

12-4 Pledged Collateral

Condition – North Dakota Century Code 21-04 requires that the District deposits be protected by a bond or by collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. The District’s pledged collateral did not meet this requirement at December 31, 2012 for Kindred State Bank and at June 30, 2012 for Bremer Bank. The District’s deposits were under collateralized at Kindred State Bank by approximately \$200,000 and Bremer Bank by approximately \$50,000.

Criteria – A good system of internal accounting control contemplates an adequate system for monitoring the requirements of pledged collateral.

Effect – The District was not in compliance with North Dakota Century Coded 21-04. Additionally, the noncompliance increases the custodial risk of the District.

Cause – The District’s deposits in Kindred State Bank and Bremer Bank exceeded the FDIC limit and no additional collateral was pledged on behalf of the District.

Recommendation – This District need to periodically review its collateral to ensure compliance.

Management’s Response – The District is aware of the control deficiency and will ensure pledge collateral exceeds 110% of deposits not covered by insurance or bonds.



Farmers Home Administration (FmHA) Comments

The Board of Directors
Cass Rural Water Users District
Kindred, North Dakota

We have audited the financial statements of Cass Rural Water Users District, for the year ended December 31, 2012, and have issued our report thereon dated February 19, 2013.

In planning and performing our audit of the financial statements of the District for the year ended December 31, 2012, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be control deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The control deficiencies are described in the accompanying schedule of findings.

A significant deficiency is a deficiency in internal control, or combinations of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a significant deficiency or a material weakness. However, we do believe findings 12-1, 12-2, and 12-3 are material weaknesses and 12-4 is a significant deficiency, as described in the schedule of findings.

Our comments on specific financial and accounting matters, as required by the Farmers Home Administration (FmHA), are detailed below:

Accounting Records

The District's accounting records and procedures in effect during the year were considered to be adequate in all material respects, except as noted in the internal control over financial reporting material weaknesses above.

Controls over Assets

Physical controls over assets of the system are considered to be adequate, except as noted in the internal control over financial reporting material weaknesses above.

Compliance with Loan Documents

The District has complied with the provisions of the loan agreements, including maintenance of adequate cash reserves.

Agreement of Financial Statements and Accounting Records

The District's accounting records, after consideration of audit entries, are in agreement with the information in the audit report.

Deposits

All cash deposits are in institutions whose accounts are insured by an agency of the federal government.

Insurance Coverage

Commercial general liability	\$ 2,000,000
Property	5,995,000
Automobile:	
Liability	Any Auto
Uninsured motorist	All owned Autos
Physical damage	ACV (less \$25)
Workers' compensation	Statutory

Income Taxes

The District is a governmental entity, and as such, is not required to file income tax returns.

Users Delinquent Over 60 Days

The total amount due from users delinquent over 60 days was \$4,208.

This letter supplements the information included in the financial statements. It is intended solely for the information and use of management, the Board of Directors, and lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
February 19, 2013