



Financial Statements  
December 31, 2013 and 2012

# Cass Rural Water Users District

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Financial Statements	
Net Position .....	8
Revenues, Expenses, and Changes in Net Position .....	9
Cash Flows .....	10
Notes to Financial Statements .....	12
Supplementary Information	
Schedule of Directors, Officers and Manager (Unaudited) .....	25
Comparative Schedules of Operations .....	26
Additional Reports	
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 <i>Government Auditing Standards</i> .....	27
Schedule of Findings .....	29
Farmers Home Administration (FmHA) Comments.....	31



## **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 position as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **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 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 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, 2013 and 2012, 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.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. 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 was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative schedule of are fairly stated, in all material respects, in relation to the basic financial statements 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

## **Report Issued in Accordance with Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2014 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
February 21, 2014

This section of the District's financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2013. 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 Position Overview
- Capital Assets and Debt Administration
- Statement of Revenues, Expenses and Change in Net Position Overview
- Request for Information

### **Financial Highlights**

- Assets – Increased nearly \$2.7 million due primarily to new pipeline added during 2013.
- Operating expenses – Increased nearly 2.4% due to with the largest increase in transmission and distribution expenses. .

### **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 Position Overview**

	2013	2012
<b>Assets</b>		
Capital assets	\$ 29,988,768	\$ 27,806,156
Other property and investments	13,623,504	13,552,301
Current assets	3,916,862	3,386,845
Total assets	\$ 47,529,134	\$ 44,745,302
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 7,552,825	\$ 6,123,749
Restricted for debt service	2,493,643	1,992,358
Unrestricted	14,667,363	14,592,907
Total net position	24,713,831	22,709,014
<b>Liabilities</b>		
Long-term debt, less current maturities	21,226,407	20,629,282
Other liabilities	1,588,896	1,407,006
Total liabilities	22,815,303	22,036,288
Total net assets and liabilities	\$ 47,529,134	\$ 44,745,302

The total assets of the District increased by 6.2%, from \$44.7 million to \$47.7 million. The increase in total assets is broken down as follows:

Water Plant in service	\$2,120,000
Current Assets	670,000
Other Property and Investments	180,000

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 \$530,000. This was a result of increase in cash and cash equivalents.

The net position of the District increased by a little over \$1.9 million.

**Capital Assets and Debt Administration**

At the end of 2013, the District had \$43.2 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, 2013 the District had total long term debt including current maturities outstanding of \$21.2 million. 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, 2013 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 Position Overview**

	2013	2012
Total Revenues	\$ 6,269,270	\$ 6,486,550
Total Expenses	5,080,280	5,002,071
Income	1,188,990	1,484,479
Capital Contributions		
Special assessment	815,827	771,750
Change in Net Position	2,004,817	2,256,229
Net Position, Beginning of Year	22,709,014	20,452,785
Net Position, End of Year	\$ 24,713,831	\$ 22,709,014



Overall operating expenses increased by 4.06% or approximately \$167,000. However, transmission and distribution costs increased by over \$71,000 as a consequence of water purchases made from the City of Fargo. Depreciation expense increased by approximately \$29,000 during 2013.

### **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.

	2013	2012
Assets		
Water Plant		
In service	\$ 38,493,917	\$ 35,900,567
Construction in progress	249,990	7,971
Total water plant	38,743,907	35,908,538
Less accumulated depreciation	8,755,139	8,102,382
Water plant - net	29,988,768	27,806,156
Other Property and Investments		
Intangible assets, net of accumulated amortization	8,338,707	8,859,876
Special assessment receivable, net of current portion	2,266,773	1,842,635
Patronage capital credits from nonassociated companies	230,482	216,200
Other investments	-	5,343
Special funds	2,787,542	2,623,379
	13,623,504	13,547,433
Current Assets		
Cash and cash equivalents	2,785,733	2,288,834
Cash and cash equivalents - restricted	278	1,997
Temporary investments	129,544	320,631
Accounts receivable, less accumulated provision for uncollectible accounts (2013 - \$143, 2012 - \$999)	399,938	385,817
Delinquent special assessment receivables	313,124	185,608
Special assessment receivable, current portion	226,870	149,723
Inventory	3,422	3,422
Prepaid Items	51,485	44,345
Interest receivable	6,468	6,468
Total current assets	3,916,862	3,386,845
Deferred Debits		
Debt issuance costs, net of accumulated amortization	-	4,868
	\$ 47,529,134	\$ 44,745,302

Cass Rural Water Users District  
 Statements of Net Position  
 December 31, 2013 and 2012

	2013	2012
Net Assets and Liabilities		
Net Position		
Net investment in capital assets	\$ 7,552,825	\$ 6,123,749
Restricted for debt service	2,493,643	1,992,358
Unrestricted	14,667,363	14,592,907
Total net position	24,713,831	22,709,014
Long - Term Debt,		
Less Current Maturities	21,226,407	20,629,282
Current Liabilities		
Current maturities of long-term debt	1,209,536	1,053,125
Accounts payable	147,873	122,394
Accrued vacation	26,698	26,698
Accrued interest	204,789	204,789
Total current liabilities	1,588,896	1,407,006
	\$ 47,529,134	\$ 44,745,302

Cass Rural Water Users District  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues		
Metered sales to customers	\$ 5,841,402	\$ 5,739,943
Miscellaneous	52,064	55,210
Total operating revenues	5,893,466	5,795,153
Operating Expenses		
Pumping expense	224,438	203,983
Water treatment and testing expense	136,737	121,675
Transmission and distribution expense	525,641	454,160
Administrative and general expense	697,224	672,424
Purchased water	1,403,557	1,424,307
Depreciation expense	652,758	667,926
Amortization expense	521,169	521,169
Taxes	47,072	44,107
Total operating expenses	4,208,596	4,109,751
Operating Income	1,684,870	1,685,402
Nonoperating Revenues (Expenses)		
Interest on special assessments	141,690	163,891
Investment income	26,453	39,729
Franchise fee payment	129,360	70,224
Membership revenue	500	1,500
Surety revenue	-	318,565
Miscellaneous revenue	77,801	97,488
Interest expense	(871,684)	(892,320)
Total nonoperating revenues (expenses), net	(495,880)	(200,923)
Income Before Contributions	1,188,990	1,484,479
Capital Contributions		
Special assessments	815,827	771,750
Change in Net Position	2,004,817	2,256,229
Net Position, Beginning of Year	22,709,014	20,452,785
Net Position, End of Year	\$ 24,713,831	\$ 22,709,014

Cass Rural Water Users District  
 Statements of Cash Flows  
 Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Operating cash receipts from customers	\$ 6,695,172	\$ 7,055,877
Cash payments to suppliers for goods and services	(868,477)	(828,318)
Cash payments to employees for services	(697,224)	(672,424)
Miscellaneous payments	(1,445,761)	(1,481,943)
	3,683,710	4,073,192
Investing Activities		
Purchase of investments	(254,432)	(634,343)
Sale of investments	266,129	249,493
Interest received	26,453	39,729
	38,150	(345,121)
Capital and Related Financing Activities		
Interest payments on debt	(871,684)	(892,320)
Proceeds from long-term borrowings	1,860,000	168,000
Net additions to special assessments	(409,310)	(357,245)
Payment of construction payable	-	(947,491)
Additions to plant	(2,831,050)	(436,885)
Proceeds from sale of plant	-	60,000
Proceeds from surety	-	318,565
Principal payments on long-term debt	(1,104,496)	(1,026,859)
	(3,356,540)	(3,114,235)
Noncapital Financing Activities		
Franchise fee payment	129,360	70,224
Membership revenue	500	1,500
	129,860	71,724
Net Cash from Noncapital Financing Activities	129,860	71,724
Net Change in Cash and Cash Equivalents	495,180	685,560
Cash and Cash Equivalents, Beginning of Year	2,290,831	1,605,271
Cash and Cash Equivalents, End of Year	\$ 2,786,011	\$ 2,290,831

Cass Rural Water Users District  
 Statements of Cash Flows  
 Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activity Reconciliation		
Operating income	\$ 1,684,870	\$ 1,685,402
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	652,758	667,926
Amortization of debt expense	4,868	7,811
Amortization of intangible assets	521,169	521,169
Gain on sale of plant & equipment	-	(21,340)
Changes in assets and liabilities		
Accounts receivable	801,706	1,260,724
Prepayments	(7,140)	(28,264)
Accounts payable	25,479	(20,236)
Net Cash from Operating Activities	\$ 3,683,710	\$ 4,073,192
Noncash Investing Activities		
Patronage capital credit	\$ (14,282)	\$ (5,451)
Capital contribution recognized by special assessment	\$ 815,827	\$ 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**

With respect to proprietary activities Cass Rural Water Users District has adopted GASB statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

#### **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 Position. At December 31, 2013 and 2012, 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 1.89% and 2.06% in 2013 and 2012.

### **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 2013 and 2012 was \$521,169.



### **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 on income or net position.

### **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.

In 2012, the District levied additional assessments on the properties in the Deer Creek, Silverleaf, Maple Valley and other smaller improvement districts.

In 2013, the District issued \$810,000 Series B of 2013 Bonds and has levied the assessments on the property in the Davies and Deer Creek Improvement Districts to pay for the bonds. The special assessments call for annual payments varying from \$35,000 to \$60,000 at 0.80% to 4.00% commencing in 2014 and ending 2028.

#### **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, 2013 and 2012, 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, 2013, 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	\$ 2,003,546	\$ 506,945	\$ 1,496,601
Government National Mortgage Association	\$ 117,171	\$ 117,171	\$ -

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	\$ 1,988,552	\$ 322,588	\$ 1,665,964
Government National Mortgage Association	\$ 174,679	\$ 174,679	\$ -

**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 December 31, 2013 all deposits were insured or collateralized by securities held by the District's agent in the District's name.

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

	2013	2012
Carrying Amount		
Deposits in bank	\$ 3,539,866	\$ 3,076,953
Certificates of deposit	1,988,552	1,988,552
Investments	174,679	174,679
	\$ 5,703,097	\$ 5,240,184
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,785,733	\$ 2,288,834
Cash and cash equivalents - restricted	278	1,997
Temporary cash investments	129,544	320,631
Other investments	-	5,343
Special funds	2,787,542	2,623,379
	\$ 5,703,097	\$ 5,240,184

**Note 5 - Water Plant And Depreciation**

As of December 31, 2013:

	Balance 1/1/13	Additions	Retirements	Balance 12/31/13
Classified Water Plant in Service				
Construction in progress	\$ 7,971	\$ 249,990	\$ 7,971	\$ 249,990
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	395,436	-	-	395,436
Collecting and impounding reservoirs	3,724,251	20,103	-	3,744,354
Wells	796,566	21,185	-	817,751
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	879,725	-	-	879,725
Transmission and distribution mains	21,435,718	2,249,484	-	23,685,202
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Services	45	-	-	45
Meters	824,104	160,195	-	984,299
	<u>34,185,226</u>	<u>2,450,967</u>	<u>-</u>	<u>36,636,193</u>
General plant				
Structures and improvements	237,462	-	-	237,462
Office furniture and equipment	207,862	16,551	-	224,413
Transportation equipment	248,226	60,953	-	309,179
Tools, shop and garage equipment	290,281	22,838	-	313,119
Other equipment - reservoir monitors	728,003	42,041	-	770,044
	<u>1,711,834</u>	<u>142,383</u>	<u>-</u>	<u>1,854,217</u>
Total water plant	<u>\$ 35,908,538</u>	<u>\$ 2,843,340</u>	<u>\$ 7,971</u>	<u>\$ 38,743,907</u>

Accumulated depreciation as of December 31, 2013:

	Depreciation Rates in %	Balance 1/01/13	Accruals	Retirements	Balance 12/31/13
<b>Distribution Plant</b>					
Collecting and impounding reservoirs	2.0	\$ 1,417,820	\$ 74,485	\$ -	\$ 1,492,305
Wells	2.0	246,070	15,931	-	262,001
Electric pumping equipment	5.0	874,943	-	-	874,943
Water treatment equipment	5.0	812,830	35,189	-	848,019
Transmission	1.0	3,483,951	319,022	-	3,802,973
Meters	4.0	446,841	32,964	-	479,805
Service Leads	1.0	6,351	4,234	-	10,585
		<u>7,288,806</u>	<u>481,825</u>	<u>-</u>	<u>7,770,631</u>
<b>Totals - distribution mains</b>					
<b>General Plant</b>					
Structures and improvements	2.0	89,607	4,749	-	94,356
Office furniture and equipment	10.0-15.0	152,544	15,289	-	167,833
Transportation equipment	33.3	225,508	36,506	-	262,014
Tools, shop and garage equipment	15.0	200,317	41,588	-	241,905
Reservoir monitors	10.0	145,600	72,800	-	218,400
		<u>813,576</u>	<u>170,932</u>	<u>-</u>	<u>984,508</u>
<b>Totals - general plant</b>					
		<u>\$ 8,102,382</u>	<u>\$ 652,757</u>	<u>\$ -</u>	<u>\$ 8,755,139</u>
<b>Totals - all plant</b>					

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 a 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, 2013 and 2012

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>

Cass Rural Water Users District  
Notes to Financial Statements  
December 31, 2013 and 2012

Accumulated depreciation as of December 31, 2012:

	Depreciation Rates in %	Balance 01/01/12	Accruals	Retirements	Balance 12/31/12
<b>Distribution Plant</b>					
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>
<b>General Plant</b>					
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>

Cass Rural Water Users District  
Notes to Financial Statements  
December 31, 2013 and 2012

**Note 6 - Long-Term Debt**

	Balance January 1, 2013	Additions	Payments	Balance December 31, 2013	Due within One Year
Bank of North Dakota	\$ 305,690	\$ -	\$ 40,792	\$ 264,898	\$ 41,979
Rural Utilities Service	1,701,543	-	35,389	1,666,154	36,117
State Revolving Fund	1,275,000	-	85,000	1,190,000	95,000
Bond Issue 2006	208,000	-	19,000	189,000	20,000
Radcliffe					
Revocable Trust	108,637	-	6,773	101,864	7,120
North Dakota Public					
Finance Authority <sup>1</sup>	13,980,651	-	665,000	13,315,651	690,000
North Dakota Public					
Finance Authority <sup>2</sup>	1,120,000	-	50,000	1,070,000	55,000
Bond Issue 2008	485,000	-	35,000	450,000	35,000
Bremer Bond Issue	1,029,806	-	24,510	1,005,296	24,320
Bond Issue 2009	220,000	-	15,000	205,000	15,000
Bond Issue 2010	460,000	-	70,000	390,000	70,000
Tharaldson Ethanol Escrow	788,080	-	-	788,080	-
Starion Bond Series A	-	1,050,000	60,000	990,000	85,000
Starion Bond Series B	-	810,000	-	810,000	35,000
	<u>\$ 21,682,407</u>	<u>\$ 1,860,000</u>	<u>\$ 1,106,464</u>	<u>\$ 22,435,943</u>	<u>\$ 1,209,536</u>
	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 <sup>1</sup>	14,625,651	-	645,000	13,980,651	665,000
North Dakota Public					
Finance Authority <sup>2</sup>	1,170,000	-	50,000	1,120,000	50,000
Series 2008 Revenue Bond	-	-	-	-	-
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>



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 \$4,628,249 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 \$690,000 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 \$3,143,000 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	2029	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 <sup>1</sup>	2028	3.50%
North Dakota Public Finance Authority <sup>2</sup>	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	-
Starion Bond Series A	2027	0.06%
Starion Bond Series B	2028	0.08%

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.

During 2013, the District issued \$1,050,000 of Series A 2013 Bonds. The agreement requires semi-annual payments, including interest, at an interest rate from 0.60% and 2.65%. Payments commence in May 2013 through May 2027.

During 2013, the District issued \$810,000 of Series B 2013 Bonds. The agreement requires semi-annual payments, including interest, at an interest rate from 0.80% and 4.00%. Payments commence in May 2014 through May 2028.

Minimum principal and interest payments required are estimated as follows:

<u>Year ending December 31:</u>	Long-term Debt	
	Principal	Interest
2014	\$ 1,209,536	\$ 834,410
2015	1,258,170	795,337
2016	1,288,865	751,664
2017	1,320,148	705,578
2018	1,361,529	657,355
2019 - 2023	6,961,692	2,518,439
2024 - 2028	7,650,898	1,183,467
2029 - 2033	852,086	264,174
2034 - 2038	533,019	60,514
	\$ 22,435,943	\$ 7,770,938

**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:

2014	\$ 17,964
2015	17,973
2016	17,973
2017	17,964
2018	17,946
2019 - 2023	89,501
	\$ 179,321

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, 2013 and 2012 was \$95,391 and \$93,422, 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 \$22,079, \$20,750, and \$20,006 to the custodial accounts for the years ended December 31, 2013, 2012, and 2011, 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, 2013. 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.



Supplementary Information  
December 31, 2013 and 2012

# Cass Rural Water Users District

Cass Rural Water Users District  
Schedule of Directors, Officers and Manager (Unaudited)  
December 31, 2013

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<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, 2009 - 2013

	2009		2010		2011		2012		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenue	\$ 4,049,581	100.0 %	\$ 4,417,979	100.0 %	\$ 5,201,464	100.0 %	\$ 5,795,153	100.0 %	\$ 5,893,466	100.0 %
Operating Expenses										
Pumping	140,687	3.5	179,354	4.1	191,118	3.7	203,983	3.5	224,438	3.8
Water treatment and testing	111,166	2.7	114,006	2.6	120,400	2.3	121,675	2.1	136,737	2.3
Transmission and distribution	377,253	9.3	435,228	9.9	469,867	9.0	454,160	7.8	525,641	8.9
Administrative and general	578,996	14.3	636,796	14.4	759,965	14.6	672,424	11.6	697,224	11.8
Purchased water	811,001	20.0	1,108,542	25.1	1,228,588	23.6	1,424,307	24.6	1,403,557	23.8
Depreciation and amortization	320,267	7.9	1,004,805	22.7	1,104,796	21.2	1,189,095	20.5	1,173,927	19.9
Taxes	39,936	1.0	40,341	0.9	50,273	1.0	44,107	0.8	47,072	0.8
Total operating expense	2,379,306	58.7	3,519,072	79.7	3,925,007	75.4	4,109,751	70.9	4,208,596	71.3
Utility Operating Income	1,670,275	41.3	898,907	20.3	1,276,457	24.6	1,685,402	29.1	1,684,870	28.7
Other Income (Deductions)										
Investment income	70,000	1.7	74,909	1.7	86,207	1.7	137,217	2.4	104,254	1.8
Interest special assessment	94,253	2.3	145,843	3.3	74,158	1.4	163,891	2.8	141,690	2.4
Special assessment	265,000	6.5	108,999	2.5	-	-	771,750	13.3	815,827	13.8
Franchise fee payment	51,744	1.3	94,248	2.1	55,440	1.1	70,224	1.2	129,360	2.2
Interest expense	(574,468)	(14.2)	(896,478)	(20.3)	(891,808)	(17.1)	(892,320)	(15.4)	(871,684)	(14.8)
Other	64,920	1.6	1,946,590	44.1	2,445,140	47.0	320,065	5.5	500	0.0
Total income (deductions)	(28,551)	(0.8)	1,474,111	33.4	1,769,137	34.0	570,827	9.9	319,947	5.4
Net Income	\$ 1,641,724	40.5 %	\$ 2,373,018	53.7 %	\$ 3,045,594	58.6 %	\$ 2,256,229	39.0 %	\$ 2,004,817	34.1 %



Additional Reports  
December 31, 2013 and 2012

# Cass Rural Water Users District



**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***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Cass Rural Water Users District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which comprise the District’s basic financial statements, and have issued our report thereon dated February 21, 2014.

**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) to determine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiency 2013-A and 2013-B described in the accompanying schedule of findings to be a material weakness



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 2013-C described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. The District's response was not subjected to the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
February 21, 2014

**Findings – Financial Statement Audit**

**Material Weakness**

**2013-A 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

### 2013-B 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.

## Significant Deficiency

### 2013-C 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.

## 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, 2013, and have issued our report thereon dated February 21, 2014.

In planning and performing our audit of the financial statements of the District for the year ended December 31, 2013, 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 2013-A and 2013-B are a material weaknesses and 2013-C is a significant deficiency, as described in the schedule of findings and questioned costs.

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 deficiency 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	\$ 3,000,000
Property	6,616,500
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 \$6,912.

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 21, 2014