



Financial Statements  
December 31, 2023 and 2022  
**Cass Rural Water Users District**

Independent Auditor’s Report.....	1
Management's Discussion and Analysis .....	5
Financial Statements	
Statements of Net Position .....	9
Statements of Revenues, Expenses, and Changes in Net Position .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	14
Supplementary Information	
Schedule of Expenditures of Federal Awards .....	32
Notes to Schedule of Expenditures of Federal Awards .....	33
Other Information	
Schedule of Directors, Officers and Manager (Unaudited).....	34
Comparative Schedules of Operations (Unaudited) .....	35
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> .....	36
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance .....	38
Schedule of Findings and Questioned Costs .....	41



## Independent Auditor's Report

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

### Report on the Audited Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of the Cass Rural Water Users District (the District), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Cass Rural Water Users District as of December 31, 2023 and 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibility for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

### ***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 is the responsibility of management and, 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 GAAS, 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the schedule of directors, officers, and manager and comparative schedule of operations but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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  
March 26, 2024

This section of the District's financial report presents our analysis of the District's financial performance during the fiscal years ended December 31, 2023 and 2022. 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
- Factors Bearing on the District's Future
- Request for Information

#### **Financial Highlights**

- Assets – Increased approximately \$40.0 million primarily due to completion of construction projects and other capital asset additions.
- Operating Expenses – Increased approximately 13.3% due to increases in transmission and distribution expenses, as well as general personnel costs.

#### **Organization and Business**

Cass Rural Water Users District provides water service to approximately 8,100 rural residences and 14 communities in Cass County and parts of Trail, Barnes, Ransom and Richland counties serving a total estimated population of approximately 20,000 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**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Assets</b>			
Current assets	\$ 23,233,027	\$ 16,567,583	\$ 15,154,971
Other property and investments	17,636,250	16,941,860	16,531,202
Water Plant	<u>99,105,525</u>	<u>66,449,005</u>	<u>63,965,664</u>
Total assets	<u>\$ 139,974,802</u>	<u>\$ 99,958,448</u>	<u>\$ 95,651,837</u>
<b>Liabilities</b>			
Current liabilities	\$ 11,685,303	\$ 3,703,089	\$ 4,152,273
Long-term liabilities, less current maturities	<u>34,045,385</u>	<u>25,308,693</u>	<u>26,294,184</u>
Total liabilities	<u>45,730,688</u>	<u>29,011,782</u>	<u>30,446,457</u>
<b>Deferred Inflows of Resources</b>			
Lease receivable	<u>61,228</u>	<u>85,102</u>	<u>50,559</u>
<b>Net Position</b>			
Net investment in capital assets	59,280,606	38,226,735	34,929,685
Restricted for debt service	15,052,192	13,961,818	13,183,530
Unrestricted	<u>19,850,088</u>	<u>18,673,011</u>	<u>17,041,606</u>
Total net position	<u>94,182,886</u>	<u>70,861,564</u>	<u>65,154,821</u>
Total net position, liabilities, and deferred inflows of resources	<u>\$ 139,974,802</u>	<u>\$ 99,958,448</u>	<u>\$ 95,651,837</u>

The total assets of the District increased by 40.0%, from \$100.0 million to \$140.0 million. The approximate change in the total assets is broken down as follows:

Water Plant in service and Construction in Progress	\$ 32,657,000
Current Assets	6,665,000
Other Property and Investments	694,000

The increase in Water Plant in service and Construction in Progress was a result of the additional construction projects and other capital asset additions.

The increase in current assets and the increase in other property and investments were a result of an increase in investments and new special assessments.

The net position of the District increased by approximately \$23.32 million.



### Capital Assets and Debt Administration

At the end of 2023, the District had approximately \$99.1 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 in Note 5 of the financial statements.

As of December 31, 2023, the District had total long term debt including current maturities outstanding of approximately \$39.8 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, 2023, the District had funds on hand to make all debt payments through the year 2024. The details of the various debt instruments are presented in more detail in Note 7 of the financial statements.

### Statement of Revenues, Expenses and Change in Net Position Overview

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total Revenues	\$ 30,297,214	\$ 12,058,083	\$ 10,780,309
Total Expenses	<u>9,345,892</u>	<u>8,160,441</u>	<u>7,867,162</u>
Income	20,951,322	3,897,642	2,913,147
Capital Contributions			
Water plant	-	-	3,153,783
Special assessment	<u>2,370,000</u>	<u>1,809,101</u>	<u>777,664</u>
Total capital contributions	<u>2,370,000</u>	<u>1,809,101</u>	<u>3,931,447</u>
Change in Net Position	23,321,322	5,706,743	6,844,594
Net Position, Beginning of Year	<u>70,861,564</u>	<u>65,154,821</u>	<u>58,310,227</u>
Net Position, End of Year	<u><u>\$ 94,182,886</u></u>	<u><u>\$ 70,861,564</u></u>	<u><u>\$ 65,154,821</u></u>

Overall operating revenues increased by 9.7% or approximately \$940,000. Metered sales increased by approximately \$930,000. Overall operating expenses increased by 13.3% or approximately \$980,000. The increases in operating revenues and expenses were due to an increase of serviced customers, as well as additional usage. Capital contributions increased by approximately \$600,000 due to more special assessment districts added in 2023 compared to 2022.

### **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 Manager, Cass Rural Water District, P.O. Box 98, Kindred, North Dakota 58051.

Cass Rural Water Users District  
Statements of Net Position  
December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,877,522	\$ 2,841,592
Cash and cash equivalents - restricted	7,217,506	4,753,718
Investments - short term	7,848,323	5,880,889
Accounts receivable	2,728,791	1,730,716
Delinquent special assessment receivables	59,626	38,261
Special assessment receivable, current portion	1,293,143	1,173,819
Prepaid items	35,689	31,347
Lease receivable	61,228	85,102
Interest receivable	111,199	32,139
Total current assets	23,233,027	16,567,583
Other Property and Investments		
Intangible assets, net of accumulated amortization	3,127,016	3,648,186
Special assessment receivable, net of current portion	13,759,049	12,787,999
Patronage capital credits from nonassociated companies	270,185	265,675
Investments - long term	480,000	240,000
Total other property and investments	17,636,250	16,941,860
Water Plant		
In service	96,274,409	81,987,985
Construction in progress	22,726,777	2,685,555
Total water plant	119,001,186	84,673,540
Less accumulated depreciation	19,895,661	18,224,535
Water plant - net	99,105,525	66,449,005
Total assets	\$ 139,974,802	\$ 99,958,448

Cass Rural Water Users District  
 Statements of Net Position  
 December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities		
Current Liabilities		
Current maturities of long-term debt	\$ 5,779,534	\$ 2,913,577
Accounts payable	348,776	533,238
Construction payable	5,238,013	-
Accrued vacation	96,962	88,633
Accrued interest	222,018	167,641
Total current liabilities	<u>11,685,303</u>	<u>3,703,089</u>
Long-Term Liabilities		
Long-term debt, less current maturities	<u>34,045,385</u>	<u>25,308,693</u>
Total liabilities	<u>45,730,688</u>	<u>29,011,782</u>
Deferred Inflows of Resources		
Lease receivable	<u>61,228</u>	<u>85,102</u>
Net Position		
Net investment in capital assets	59,280,606	38,226,735
Restricted for debt service	15,052,192	13,961,818
Unrestricted	<u>19,850,088</u>	<u>18,673,011</u>
Total net position	<u>94,182,886</u>	<u>70,861,564</u>
Total net position, liabilities, and deferred inflows of resources	<u>\$ 139,974,802</u>	<u>\$ 99,958,448</u>

Cass Rural Water Users District  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Sales to customers	\$ 10,550,570	\$ 9,623,197
Miscellaneous	64,862	55,124
Total operating revenues	10,615,432	9,678,321
Operating Expenses		
Pumping	271,510	271,562
Water treatment and testing	264,899	234,548
Transmission and distribution	919,075	848,618
Administrative and general	1,523,305	1,427,251
Purchased water	3,008,761	2,455,689
Depreciation	1,669,800	1,473,869
Amortization	527,177	527,298
Taxes	131,057	99,033
Total operating expenses	8,315,584	7,337,868
Operating Income	2,299,848	2,340,453
Nonoperating Revenues (Expenses)		
Interest on special assessments	579,598	650,601
Investment income	431,491	119,353
Grant revenue	12,190,065	931,144
Membership revenue	79,239	106,024
Bond issuance costs	(95,556)	(33,500)
Construction revenues	1,897,057	198,858
Construction expenses	(114,970)	(29,240)
Miscellaneous revenue	4,504,332	373,782
Interest expense	(819,782)	(759,833)
Total nonoperating revenues (expenses), net	18,651,474	1,557,189
Income Before Capital Contributions	20,951,322	3,897,642
Capital Contributions		
Special assessments	2,370,000	1,809,101
Change in Net Position	23,321,322	5,706,743
Net Position, Beginning of Year	70,861,564	65,154,821
Net Position, End of Year	\$ 94,182,886	\$ 70,861,564

Cass Rural Water Users District  
Statements of Cash Flows  
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Operating cash receipts from customers	\$ 9,617,357	\$ 9,573,469
Cash payments to suppliers for goods and services	(4,784,106)	(4,540,864)
Cash payments to employees for services	(1,514,976)	(1,419,144)
Net Cash from Operating Activities	3,318,275	3,613,461
Investing Activities		
Purchase of investments	(2,211,944)	(2,204,912)
Interest received	352,431	87,214
Net Cash used for Investing Activities	(1,859,513)	(2,117,698)
Capital and Related Financing Activities		
Interest payments on debt	(765,405)	(762,676)
Proceeds from long-term borrowings	14,516,923	1,932,116
Proceeds from special assessments	1,837,859	1,739,955
Payment of bond issuance costs	(95,556)	(33,500)
Proceeds from construction revenue, net	1,782,087	169,618
Additions to plant	(29,094,314)	(3,963,339)
Proceeds from miscellaneous revenue	4,504,332	373,782
Proceeds from grant revenue	12,190,065	931,144
Principal payments on long-term debt	(2,914,274)	(2,745,825)
Net Cash from (used for) Capital and Related Financing Activities	1,961,717	(2,358,725)
Noncapital Financing Activity		
Membership revenue	79,239	106,024
Net Change in Cash and Cash Equivalents	3,499,718	(756,938)
Cash and Cash Equivalents, Beginning of Year	7,595,310	8,352,248
Cash and Cash Equivalents, End of Year	\$ 11,095,028	\$ 7,595,310
Cash and cash equivalents	\$ 3,877,522	\$ 2,841,592
Cash and cash equivalents - restricted	7,217,506	4,753,718
	\$ 11,095,028	\$ 7,595,310

Cass Rural Water Users District  
 Statements of Cash Flows  
 Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activity Reconciliation		
Operating income	\$ 2,299,848	\$ 2,340,453
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	1,669,800	1,473,869
Amortization of intangible assets	527,177	527,298
Accounts receivable	(998,075)	(104,852)
Prepayments	(4,342)	(5,184)
Lease receivable	23,874	(34,543)
Lease related deferred outflow of resources	(23,874)	34,543
Accounts payable	(184,462)	(626,230)
Accrued vacation	8,329	8,107
	<u>\$ 3,318,275</u>	<u>\$ 3,613,461</u>
Net Cash from Operating Activities		
Noncash Financing Activities		
Water plant included within construction payable	\$ 5,238,013	\$ -
Special assessment capital contribution	2,370,000	1,809,101
	<u>\$ 7,608,013</u>	<u>\$ 1,809,101</u>
Total noncash financing activities		

**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 Chapter 61-35. The District is accounted for as a special purpose government engaged in a business-type activity. Business-type activities are used to account for operations that are financed or operated in a manner similar to the private sector, where the intent is that cost of providing services to the general public on a continuous basis be financed or recovered primarily through user charges.

**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, the District is not includable as a component unit within another reporting entity and there are no component units to be included within the District as a reporting entity.

**Basis of Accounting**

The District's basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The accompanying financial statements have been presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

With respect to business-type 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." These activities are those normally financed in whole or in part by fees and charges for services to external parties. The District's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets, liabilities, deferred inflows of resources, net position, revenues and expenses are accounted for through a single business-type activity.



### **Cash and Cash Equivalents, and Investments**

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.

Long term investments consist of certificates of deposit with original maturity dates of over three months to twelve months.

Investment 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 investment income.

### **Cash and Cash Equivalents - Restricted**

Cash and cash equivalents – restricted consist of funds restricted in accordance with bond indenture agreements and capital reserves.

### **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. Based on management's assessment, uncollectible accounts are unlikely and therefore, an allowance for doubtful accounts has not been set up for the years ended December 31, 2023 and 2022.

### **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.

### **Lease Receivables**

Lease receivables are recorded by the District as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the [Entity Name] charges the lessee.

**Plant Additions and Retirements**

Water 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.

Right to use leased assets are recognized at the lease commencement date and represent the District's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period is dependent on each respected lease.

**Depreciation**

The District utilizes composite depreciation methods for each distribution plant account. The rates are determined based on management's estimate of the average useful life of the assets along with future cost of removal and salvage factor estimates. Industry guidelines are also utilized to assist with determining the appropriate rates.

**Recoverability of Long-Lived Assets**

The District reviews the carrying value of water plant for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset are less than the carrying value of the asset. Management has determined that no impairment exists at December 31, 2023 and 2022.

**Intangible Assets and Amortization**

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 on a straight-line basis 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 2023 and 2022 was \$521,169. Additional amortization expense relating to right-to-use leased assets of \$6,008 in 2023 and \$6,129 in 2022, are included in the Statements of Revenues, Expenses, and Changes in Net Position.

### **Long-Term Liabilities**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present values of lease payments are discounted based on a borrowing rate determined by the District.

### **Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of items that qualify for reporting in this category, related to leases where the District is the lessor. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease.

### **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 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.

### **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.

### 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 net position.

### Note 3 - Deposits and Investments

The District's investments are generally reported at fair value, as discussed in Note 2. At December 31, 2023, 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:

<u>Investment Type</u>	<u>Fari Value</u>	<u>Less than 1</u>	<u>1-5</u>
Certificate of Deposits	<u>\$ 8,315,000</u>	<u>\$ 7,835,000</u>	<u>\$ 480,000</u>
Asset backed securities	<u>\$ 13,323</u>	<u>\$ 13,323</u>	<u>\$ -</u>

As of December 31, 2022, 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>\$ 6,105,000</u>	<u>\$ 5,865,000</u>	<u>\$ 240,000</u>
Asset backed securities	<u>\$ 15,889</u>	<u>\$ 15,889</u>	<u>\$ -</u>

### Interest Rate Risk

Interest rate risk is the risk that exists when fair values are continually changing, and an investment is locked in at a fixed rate. 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.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At December 31, 2023 and 2022, the District had investments in asset backed securities of \$13,323 and \$15,889, respectively, which are valued using Level 2 inputs.

**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**

Concentration of credit risk is the risk that too many investments are held in any one issuer. 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.

The District maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank for each account ownership category. For the years ended December 31, 2023 and 2022, the District had approximately \$8,013,000 and \$5,275,000, respectively, in excess of FDIC-insured limits, which were insured or collateralized by securities held in the District's name.

**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.

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 Corporation (FDIC) 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. As of December 31, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
Carrying Amount		
Deposits in bank	\$ 11,095,028	\$ 7,595,310
Certificates of deposit	8,315,000	6,105,000
Asset backed securities	<u>13,323</u>	<u>15,889</u>
	<u>\$ 19,423,351</u>	<u>\$ 13,716,199</u>
Included in the Statement of Net Positions		
Cash and cash equivalents	\$ 3,877,522	\$ 2,841,592
Cash and cash equivalents - restricted	7,217,506	4,753,718
Investments - short term	7,848,323	5,880,889
Investments - long term	<u>480,000</u>	<u>240,000</u>
	<u>\$ 19,423,351</u>	<u>\$ 13,716,199</u>

**Note 4 - Special Assessment Receivables**

Pursuant to N.D.C.C. Chapter 61-35, the District is authorized to levy special assessments to provide for the cost of construction, repair, alteration, operation, and maintenance of a project with funds raised by special assessments. The District issues special assessments against properties in order to offer water service into territories. Special assessment payments are collected by the county and remitted to the District on a monthly.

The following is a summary of special assessments receivable at December 31, 2023:

Improvement District	Initial Year	Final Year	Annual Payment	Interest Rate	Remaining Balance
Maple Valley and Prairie Grove Phase 2	2010	2024	\$21,000 - \$27,000	2.60 - 4.50%	\$ 27,732
Deer Creek, Silverleaf, Maple Valley, MGB, Beach Lane, and 73rd Ave	2013	2027	\$60,000 - \$85,000	0.60 - 2.65%	235,936
Davies and Deer Creek 2nd	2014	2028	\$35,000 - \$60,000	0.80 - 4.00%	327,802
Eagle Point 1st and 2nd, Deer Creek 3rd, Fargo Park, and Davies	2015	2029	\$90,000 - \$105,000	0.80 - 3.10%	706,282
Crofton Cove, Deer Creek 4th, Golden Valley, and Crofton 2nd	2016	2030	\$85,000 - \$175,000	0.80 - 3.50%	1,183,621
Golden Valley 2nd, Deer Creek 5th, Rocking Horse 2nd, Crofton Coves, Prairie Farms 2nd, and Eagle Valley 2nd	2017	2031	\$250,000 - \$650,000	1.10 - 3.25%	2,307,065
Maple Valley, Eagle Point 3rd, Deer Creek 6th, Woodhurst 31st, Eagle Valley 1st, Lake Shure, and Wilds 8th	2018	2032	\$75,000 - \$240,000	1.75 - 3.65%	1,256,671
Eagle Valley 2nd, Bison Meadow, and Wilds 9th	2019	2033	\$60,000 - \$85,000	2.25 - 3.70%	805,708
Rocking Horse 5th, Grayland First Phase, and Bison Meadows Phase 2	2020	2034	\$40,000 - \$55,000	1.60 - 2.30%	592,186
Eagle Valley 3rd, Madelyn Meadows 1st, Cub Creek 1st, 63rd St, Lakeview Dr, Wilds 11th, Bison Meadows 2nd, Golden Valley 2nd, Grayland 2nd	2021	2035	\$215,000 - \$800,000	0.40 - 2.00%	2,905,964
Golden Valley 4th and Madelyn Meadows 2nd	2022	2036	\$45,000 - \$275,000	.95 - 1.70%	690,113
Eagle Valley 4th, Eagle Valley 5th, Golden Valley 4th, Golden Valley 5th, Brooktree, Wilds 20th, Madelyn Meadows 2nd	2023	2037	\$100,000 - \$155,000	3.00 - 5.00%	1,702,737
Golden Valley 6th, Lost River 7th, Madelyn Meadows 4th, Meadow View, Radio Dr, Rocking Horse 6th, Southdal Farms 3rd	2024	2038	\$120,000 - \$205,000	5.80%	2,370,001
					<u>\$ 15,111,818</u>
Included in the following statement of net position captions:					
Current Assets					
Delinquent special assessment receivables					\$ 59,626
Special assessment receivable, current portion					1,293,143
Other Property and Investments					
Special assessment receivable, net of current portion					<u>13,759,049</u>
					<u>\$ 15,111,818</u>

Cass Rural Water Users District  
Notes to Financial Statements  
December 31, 2023 and 2022

The following is a summary of special assessments receivable at December 31, 2022:

Improvement District	Initial Year	Final Year	Annual Payment	Interest Rate	Remaining Balance
Silverleaf and Custer Crossing	2007	2022	\$6,000 - \$24,000	5.20%	\$ 5,362
Maple Valley and Prairie Grove	2009	2023	\$30,000 - \$55,000	4.25 - 5.00%	45,741
Maple Valley and Prairie Grove Phase 2	2010	2024	\$21,000 - \$27,000	2.60 - 4.50%	46,466
Deer Creek, Silverleaf, Maple Valley, MGB, Beach Lane, and 73rd Ave	2013	2027	\$60,000 - \$85,000	0.60 - 2.65%	289,754
Davies and Deer Creek 2nd	2014	2028	\$35,000 - \$60,000	0.80 - 4.00%	386,009
Eagle Point 1st and 2nd, Deer Creek 3rd, Fargo Park, and Davies	2015	2029	\$90,000 - \$105,000	0.80 - 3.10%	807,606
Crofton Cove, Deer Creek 4th, Golden Valley, and Crofton 2nd	2016	2030	\$85,000 - \$175,000	0.80 - 3.50%	1,344,159
Golden Valley 2nd, Deer Creek 5th, Rocking Horse 2nd, Crofton Coves, Prairie Farms 2nd, and Eagle Valley 2nd	2017	2031	\$250,000 - \$650,000	1.10 - 3.25%	2,543,817
Maple Valley, Eagle Point 3rd, Deer Creek 6th, Woodhurst 31st, Eagle Valley 1st, Lake Shure, and Wilds 8th	2018	2032	\$75,000 - \$240,000	1.75 - 3.65%	1,372,393
Eagle Valley 2nd, Bison Meadow, and Wilds 9th	2019	2033	\$60,000 - \$85,000	2.25 - 3.70%	865,023
Rocking Horse 5th, Grayland First Phase, and Bison Meadows Phase 2	2020	2034	\$40,000 - \$55,000	1.60 - 2.30%	635,335
Eagle Valley 3rd, Madelyn Meadows 1st, Cub Creek 1st, 63rd St, Lakeview Dr, Wilds 11th, Bison Meadows 2nd, Golden Valley 2nd, Grayland 2nd	2021	2035	\$215,000 - \$800,000	0.40 - 2.00%	3,116,299
Golden Valley 4th and Madelyn Meadows 2nd	2022	2036	\$45,000 - \$275,000	0.95 - 1.70%	733,013
Eagle Valley 4th, Eagle Valley 5th, Golden Valley 4th, Golden Valley 5th, Brooktree, Wilds 20th, Madelyn Meadows 2nd	2023	2037	\$100,000 - \$155,000	3.00 - 5.00%	1,809,102
					<u>\$ 14,000,079</u>
Included in the following statement of net position captions:					
Current Assets					
Delinquent special assessment receivables					\$ 38,261
Special assessment receivable, current portion					1,173,819
Other Property and Investments					
Special assessment receivable, net of current portion					<u>12,787,999</u>
					<u>\$ 14,000,079</u>

**Note 5 - Water Plant and Depreciation**

As of December 31, 2023:

	Balance 1/1/23	Additions	Retirements	Balance 12/31/23
Classified Water Plant in Service				
Construction in progress	\$ 2,685,555	\$ 33,951,886	\$ 13,910,664	\$ 22,726,777
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	763,090	-	-	763,090
Collecting and impounding reservoirs	8,366,872	967,027	-	9,333,899
Wells	1,293,647	694,778	-	1,988,425
Electric pumping equipment	1,164,605	534,939	-	1,699,544
Water treatment equipment	5,543,829	-	-	5,543,829
Transmission and distribution mains	51,927,881	11,713,918	-	63,641,799
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Meters	2,308,169	110,328	-	2,418,497
	<u>76,622,531</u>	<u>14,020,990</u>	<u>-</u>	<u>90,643,521</u>
General Plant				
Right-to-use leased asset	27,679	-	-	27,679
Structures and improvements	2,184,489	-	-	2,184,489
Office furniture and equipment	312,294	6,371	4,686	313,979
Transportation equipment	472,105	52,825	-	524,930
Tools, shop and garage equipment	659,621	39,445	-	699,066
Other equipment - reservoir monitors	1,705,759	171,479	-	1,877,238
	<u>5,361,947</u>	<u>270,120</u>	<u>4,686</u>	<u>5,627,381</u>
Total water plant	<u>\$ 84,673,540</u>	<u>\$ 48,242,996</u>	<u>\$ 13,915,350</u>	<u>\$ 119,001,186</u>



Cass Rural Water Users District

Notes to Financial Statements

December 31, 2023 and 2022

Construction in progress as of December 31, 2023, consists of various expansion and improvement projects as follows:

Project	Expended as of 12/31/2023	Estimated Total Cost	Expected Completion Date
Diversion Impacts*	\$ 645,892	\$ 700,000	2024
Reservoir A Project*	22,010	\$ 15,000,000	2024
Soybean User Facility	21,955,868	\$ 35,000,000	2024
Reservoir D Pipeline	103,007	\$ 4,200,000	2024
	<u>\$ 22,726,777</u>		

\* These projects are part of an agreement with the Metro Flood Diversion Authority, with all costs incurred by the District expected to be fully reimbursed by the Authority or paid directly by the Authority.

Accumulated depreciation/amortization as of December 31, 2023:

	Depreciation Rates in %	Balance 1/1/22	Accruals	Retirements	Balance 12/31/23
<b>Distribution Plant</b>					
Collecting and impounding reservoirs	2.0	\$ 2,457,613	\$ 186,678	\$ -	\$ 2,644,291
Wells	2.0	466,303	39,769	-	506,072
Electric pumping equipment	5.0	1,107,864	56,741	-	1,164,605
Water treatment equipment	5.0	2,201,767	221,753	-	2,423,520
Transmission	1.0	8,058,103	748,522	-	8,806,625
Service Leads	1.0	21,169	-	-	21,169
Meters	4.0	880,176	88,150	-	968,326
Totals - distribution mains		<u>15,192,995</u>	<u>1,341,613</u>	<u>-</u>	<u>16,534,608</u>
<b>General Plant</b>					
Right-to-use leased asset	2.4	7,789	6,012	-	13,801
Structures and improvements	2.0	383,662	48,370	-	432,032
Office furniture and equipment	10.0-15.0	310,828	7,837	4,686	313,979
Transportation equipment	33.3	314,811	49,765	-	364,576
Tools, shop and garage equipment	15.0	659,621	34,399	-	694,020
Other equipment - reservoir monitors	10.0	1,354,829	187,816	-	1,542,645
Totals - general plant		<u>3,031,540</u>	<u>334,199</u>	<u>4,686</u>	<u>3,361,053</u>
Totals - all plant		<u>\$ 18,224,535</u>	<u>\$ 1,675,812</u>	<u>\$ 4,686</u>	<u>\$ 19,895,661</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 project was completed in 2009 at a total cost of \$15,656,652. 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 the 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 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.

Cass Rural Water Users District

Notes to Financial Statements  
December 31, 2023 and 2022

As security for Tharaldson’s debt service obligations, the District required personal guarantee of Gary Tharaldson for the bonding and required one year’s bond payment (Upfront Deposit) to be held by a mutually agreed-upon third party, with a balance of \$841,520 as of December 31, 2023, which is included in long-term debt. Until the bonds are retired, Tharaldson will make payment to the District for the 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. As of December 31, 2023, the reserve fund had a balance of \$2,686,857, which is included in cash and cash equivalents - restricted. During the years ended December 31, 2023 and 2022, the District received \$1,236,408 for these debt payments, and the amounts are included in operating revenues on the statements of revenues, expenses, and changes in net position.

As of December 31, 2022:

	Balance 1/1/22	Additions	Retirements	Balance 12/31/22
Classified Water Plant in Service				
Construction in progress	\$ 614,954	\$ 3,649,362	\$ 1,578,761	\$ 2,685,555
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	763,090	-	-	763,090
Collecting and impounding reservoirs	8,366,872	-	-	8,366,872
Wells	1,293,647	-	-	1,293,647
Electric pumping equipment	1,164,605	-	-	1,164,605
Water treatment equipment	5,543,829	-	-	5,543,829
Transmission and distribution mains	50,349,119	1,578,762	-	51,927,881
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Meters	2,182,081	126,088	-	2,308,169
	<u>74,917,681</u>	<u>1,704,850</u>	<u>-</u>	<u>76,622,531</u>
General Plant				
Right-to-use leased asset	5,013	22,666	-	27,679
Structures and improvements	2,184,489	-	-	2,184,489
Office furniture and equipment	304,601	9,159	1,466	312,294
Transportation equipment	434,392	37,713	-	472,105
Tools, shop and garage equipment	650,381	9,240	-	659,621
Other equipment - reservoir monitors	1,596,649	109,110	-	1,705,759
	<u>5,175,525</u>	<u>187,888</u>	<u>1,466</u>	<u>5,361,947</u>
Total water plant	<u>\$ 80,711,667</u>	<u>\$ 5,542,100</u>	<u>\$ 1,580,227</u>	<u>\$ 84,673,540</u>

Accumulated depreciation/amortization as of December 31, 2022:

	Depreciation Rates in %	Balance 1/1/22	Accruals	Retirements	Balance 12/31/22
<b>Distribution Plant</b>					
Collecting and impounding reservoirs	2.0	\$ 2,290,276	\$ 167,337	\$ -	\$ 2,457,613
Wells	2.0	440,430	25,873	-	466,303
Electric pumping equipment	5.0	1,049,633	58,231	-	1,107,864
Water treatment equipment	5.0	1,980,013	221,754	-	2,201,767
Transmission	1.0	7,465,700	592,403	-	8,058,103
Service Leads	1.0	21,169	-	-	21,169
Meters	4.0	787,849	92,327	-	880,176
Totals - distribution mains		<u>14,035,070</u>	<u>1,157,925</u>	<u>-</u>	<u>15,192,995</u>
<b>General Plant</b>					
Right-to-use leased asset	2.4	1,660	6,129	-	7,789
Structures and improvements	2.0	339,972	43,690	-	383,662
Office furniture and equipment	10.0-15.0	296,989	15,305	1,466	310,828
Transportation equipment	33.3	237,678	77,133	-	314,811
Tools, shop and garage equipment	15.0	650,381	9,240	-	659,621
Other equipment - reservoir monitors	10.0	1,184,253	170,576	-	1,354,829
Totals - general plant		<u>2,710,933</u>	<u>322,073</u>	<u>1,466</u>	<u>3,031,540</u>
Totals - all plant		<u>\$ 16,746,003</u>	<u>\$ 1,479,998</u>	<u>\$ 1,466</u>	<u>\$ 18,224,535</u>

**Note 6 - Leases**

**Lease Receivable**

The District has leases in place to rent land to various third parties. The leases vary in length from four to five years and the District will receive total annual payments of \$25,000. The District recognized \$23,874 in lease revenue and \$979 in interest revenue during year ending December 31, 2023. The District recognized \$30,581 in lease revenue and \$525 in interest revenue during the year ending December 31, 2022. As of December 31, 2023 and 2022, the District's receivable for the lease payments was \$61,228 and \$85,102, respectively. Also, the District has a deferred inflow of resources associated with the leases that will be recognized as revenue over the lease term. As of December 31, 2023 and 2022, the balance of the deferred inflow of resources was \$61,228 and \$85,102, respectively.

**Lease Payable**

The District has entered into lease agreements as the lessee for the acquisition and use of office equipment. As of December 31, 2023 and 2022, the value of the lease liability was \$13,882 and \$19,890, respectively. The leases require the District to make annual principal and interest payments and have an interest rate of 2.37%. Useful lives of the assets vary from 2 to 5 years. The carrying value of the right-to-use leased assets as of December 31, 2023 and 2022, was \$13,882 and \$19,890, respectively. During the year ending December 31, 2023, the District recorded amortization expense of \$6,008 and interest expense of \$157 related to leases. During the year ending December 31, 2022, the District recorded amortization expense of \$6,129 and interest expense of \$159 related to leases.

The future principal and interest payments as of December 31, 2022, were as follows:

Years Ending December 31,	<u>Principal</u>	<u>Interest</u>
2024	\$ 4,458	\$ 224
2025	4,241	295
2026	4,157	379
2027	887	108
	<u>\$ 13,743</u>	<u>\$ 1,006</u>

**Note 7 - Long-Term Debt**

Long term debt consists of:

	Balance 1/1/23	Additions	Payments	Balance 12/31/23	Due within One Year
Revenue Bonds of 2004	\$ 340,000	\$ -	\$ 105,000	\$ 235,000	\$ 110,000
Improvement Bonds of 2006	6,000	-	6,000	-	-
Radcliffe Revocable Trust	22,919	-	11,172	11,747	11,746
Revenue Bonds of 2007	6,160,651	-	940,000	5,220,651	975,000
NDPFA SRF 2008	525,001	-	70,000	455,001	70,000
Bremer Bond Issue	686,180	-	46,094	640,086	47,330
Improvement Bonds of 2009	50,000	-	25,000	25,000	25,000
Tharaldson Ethanol Escrow	807,132	34,388	-	841,520	-
Starion Bond Series A	300,000	-	60,000	240,000	60,000
Starion Bond Series B	350,000	-	55,000	295,000	55,000
Refunding Improvement Bonds 2015	50,000	-	50,000	-	-
Refunding Revenue Bonds of 2015	955,000	-	110,000	845,000	110,000
NDPFA SRF 2014	2,150,000	-	155,000	1,995,000	160,000
Improvement Bonds of 2016	2,680,000	-	270,000	2,410,000	275,000
Improvement Bonds of 2017	1,075,000	-	95,000	980,000	100,000
NDPFA SRF 2018	750,000	-	40,000	710,000	40,000
Improvement Bonds of 2018	830,000	-	60,000	770,000	65,000
NDPFA SRF 2019	2,015,000	-	100,000	1,915,000	105,000
Improvement Bonds of 2019	620,000	-	40,000	580,000	50,000
Improvement Bonds of 2020	3,130,000	-	220,000	2,910,000	220,000
Refunding Improvement Bonds 2021	2,055,000	-	280,000	1,775,000	275,000
Refunding Improvement Bonds 2021, Series B	745,000	-	45,000	700,000	50,000
Improvement Bonds of 2022	1,795,000	-	125,000	1,670,000	100,000
Water Treatment Revenue Bond, Series 2022	104,497	1,391,348	-	1,495,845	105,000
NDPFA SRF 2023	-	8,534,091	-	8,534,091	2,616,000
NDSP Debt Escrow	-	2,177,096	-	2,177,096	-
Improvement Bonds of 2023	-	2,380,000	-	2,380,000	150,000
Lease Liability	19,890	-	6,008	13,882	4,458
	<u>\$ 28,222,270</u>	<u>\$ 14,516,923</u>	<u>\$ 2,914,274</u>	<u>\$ 39,824,919</u>	<u>\$ 5,779,534</u>

  

	Balance 1/1/22	Additions	Payments	Balance 12/31/22	Due within One Year
Revenue Bonds of 2004	\$ 445,000	\$ -	\$ 105,000	\$ 340,000	\$ 105,000
Improvement Bonds of 2006	12,000	-	6,000	6,000	6,000
Radcliffe Revocable Trust	33,546	-	10,627	22,919	11,173
Revenue Bonds of 2007	7,070,651	-	910,000	6,160,651	940,000
NDPFA SRF 2008	595,001	-	70,000	525,001	70,000
Bremer Bond Issue	729,249	-	43,069	686,180	45,396
Improvement Bonds of 2009	70,000	-	20,000	50,000	25,000
Tharaldson Ethanol Escrow	797,179	9,953	-	807,132	-
Starion Bond Series A	365,000	-	65,000	300,000	60,000
Starion Bond Series B	405,000	-	55,000	350,000	55,000
Refunding Improvement Bonds 2015	100,000	-	50,000	50,000	50,000
Refunding Revenue Bonds of 2015	1,060,000	-	105,000	955,000	110,000
NDPFA SRF 2014	2,305,000	-	155,000	2,150,000	155,000
Improvement Bonds of 2016	2,950,000	-	270,000	2,680,000	270,000
Improvement Bonds of 2017	1,165,000	-	90,000	1,075,000	95,000
NDPFA SRF 2018	790,000	-	40,000	750,000	40,000
Improvement Bonds of 2018	890,000	-	60,000	830,000	60,000
NDPFA SRF 2019	2,115,000	-	100,000	2,015,000	100,000
Improvement Bonds of 2019	660,000	-	40,000	620,000	40,000
Improvement Bonds of 2020	3,345,000	-	215,000	3,130,000	220,000
Refunding Improvement Bonds 2021	2,330,000	-	275,000	2,055,000	280,000
Refunding Improvement Bonds 2021, Series B	800,000	-	55,000	745,000	45,000
Improvement Bonds of 2022	-	1,795,000	-	1,795,000	125,000
Water Treatment Revenue Bond, Series 2022	-	104,497	-	104,497	-
Lease Liability	3,353	22,666	6,129	19,890	6,008
	<u>\$ 29,035,979</u>	<u>\$ 1,932,116</u>	<u>\$ 2,745,825</u>	<u>\$ 28,222,270</u>	<u>\$ 2,913,577</u>

Maturity dates and interest rates are as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>
Revenue Bonds of 2004	2029	2.50%
Improvement Bonds of 2006	2023	5.20%
Radcliffe Revocable Trust	2024	5.02%
Revenue Bonds of 2007	2028	3.50%
NDPFA SRF 2008	2029	4.25%
Bremer Bond Issue	2034	6.25%
Improvement Bonds of 2009	2024	2.6 - 4.5%
Tharaldson Ethanol Escrow	2028	-
Starion Bond Series A	2027	0.60 - 2.65%
Starion Bond Series B	2028	0.80 - 4.00%
Refunding Improvement Bonds 2015	2023	1.40 - 2.10%
Refunding Revenue Bonds of 2015	2030	0.90-3.00%
NDPFA SRF 2014	2034	2.00%
Improvement Bonds of 2016	2031	1.10 - 3.25%
Improvement Bonds of 2017	2032	1.75 - 3.65%
NDPFA SRF 2018	2038	1.50%
Improvement Bonds of 2018	2033	2.25 - 3.70%
NDPFA SRF 2019	2039	1.50%
Improvement Bonds of 2019	2034	1.60 - 2.30%
Improvement Bonds of 2020	2035	0.40 - 2.00%
Refunding Improvement Bonds 2021	2030	0.25 - 1.40%
Refunding Improvement Bonds 2021, Series B	2036	0.95 - 1.70%
Improvement Bonds of 2022	2037	3.20 - 4.25%
Water Treatment Revenue Bond, Series 2022	2024	1.50%
NDPFA SRF 2023	2027	1.50%
NDSP Debt Escrow	2033	-
Improvement Bonds of 2023	2038	4.00 - 4.38%

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 2022, the District issued \$1,795,000 of Improvement Bonds of 2022. The agreement requires semi-annual interest payments commencing May 2023 through May 2037 at an interest rate of 3.20% to 4.25%. Principal payments are required to be paid every three years commencing May 2025 through May 2037. The bond proceeds will be used to make improvements to provide municipal water to residents within the District.

During 2022, the District authorized the issuance of \$2,500,000 of Cass Rural Water Users District Treatment Revenue Bond, Series 2022 to finance system improvements. The agreement requires semi-annual interest payments at a rate of 1.50% commencing March 2023 through September 2043. Annual principal payments are required to be made commencing September 2024 through September 2043. As of December 31, 2023, \$1,495,845 has been drawn on this debt issuance.

Cass Rural Water Users District

Notes to Financial Statements

December 31, 2023 and 2022

During 2022, the District authorized the issuance of \$28,646,000 with the North Dakota Public Finance Authority Drinking Water State Revolving Fund. The agreement requires annual principal payments commencing September 2024 through September 2033. Semi-annual interest payments at an interest rate of 1.50% along with a 0.5% administration fee commence March 2023. As of December 31, 2023, \$8,534,091 has been drawn from the bond issuance.

During 2023, the District authorized the issuance of \$2,380,000 Improvement Bonds of 2023 to finance system improvements. The bonds have an interest rate of 4.00% to 4.375%. Annual principal and interest payments are required and commence May 2024 through May 2038. Annual principal payments commence September 2024 through September 2033.

Minimum principal and interest payments required are estimated as follows:

Years Ending December 31,	Long-term Debt	
	Principal	Interest
2024	\$ 5,779,534	\$ 1,189,189
2025	5,843,587	1,051,249
2026	5,850,605	925,398
2027	3,722,758	801,081
2028	4,048,096	402,619
2029 - 2033	10,634,553	1,120,502
2034 - 2038	3,815,786	287,627
2039 - 2040	130,000	1,950
	\$ 39,824,919	\$ 5,779,615

**Note 8 - Major Customer**

The District derived 10 percent or more of its revenue from the following customer during the years ended December 31, 2023 and 2022:

	2023	2022
Customer A	\$ 2,573,342	\$ 2,523,544

As of December 31, 2023 and 2022, the District had accounts receivable due from this customer of \$207,907 and \$200,542, respectively.

### **Note 9 - Retirement Plan**

Effective April 1, 2018, the District adopted a 457(b) salary deferral plan for full-time employees. Employee contributions are allowed to the limit allowed by IRS regulations and a match contribution is made by the District to a maximum of 7%. Employees are fully vested after 3 years. The amount of contributions paid by the District for the years ended December 31, 2023 and 2022, was \$75,052 and \$67,130, respectively.

### **Note 10 - Commitments and Agreements**

#### **Wholesale Water Agreements**

The District is committed to purchase water from the City of Fargo under a wholesale water agreement. The District must purchase at least 500,000 gallons of treated water per month at \$3.25 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, 2023. Both parties are operating under the terms of the expired agreement until a new agreement is signed, as no significant changes are expected.

The District is committed to sell water to the City of Horace under a wholesale water agreement. The District will sell potable water to the City of Horace, not to exceed a monthly maximum of 12,000,000 gallons, at a rate of \$3.75 per 1,000 gallons. Each year under the agreement, the rate is subject to change in accordance with the District's "Bulk User Rate" and upon prompt written notice to the City of Horace. This agreement will remain in effect until 2041.

#### **City of West Fargo**

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.

#### **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 is \$1.89 per bill.



### **City of Horace**

The District entered into an agreement relating to portions of new developments within the City of Horace that lay within the service territory of the District. The District has the exclusive right to provide water and water service to properties located within the District's service territory. Therefore, the City and the District have entered into an agreement in which the City agreed to construct the needed water infrastructure within the new development areas located within District territory. Upon completion, the City will sell the infrastructure within District territory to the District at the City's cost plus 13%. During the year ended December 31, 2023, there was \$925,747 in completed developments in the District's territory.

### **Metro Flood Diversion Authority**

The District entered in an agreement with the Metro Flood Diversion Authority (the Authority) regarding the reimbursement of all costs associated with the Fargo-Moorhead Metropolitan Area Flood Risk Management Project (Diversion project). The District owns distribution lines within the territory of the Diversion project and any reasonable costs incurred by the District to move and meet all requirements of the Diversion project are subject to 100% reimbursement. As of December 31, 2023, the District has incurred total costs relating to this project of \$645,892.

The District also entered into a separate agreement with the Authority, specifically relating to the relocation and protection of the Southern Embankment and Associated Infrastructure, which was previously constructed and currently operated by the District. Any reasonable costs associated with the project will be paid for directly by the Authority and upon completion, the assets associated with the project will be transferred to the District. As of December 31, 2023, the District has incurred total costs relating to this project of \$22,010. Additionally, as defined in this agreement, in 2023 the District received \$4,164,320 as a payment for costs associated with various other relocations and distribution plant, which is recorded as miscellaneous revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

### **North Dakota Soybean Processors and City of Fargo**

The District entered into a memo of understanding between both the North Dakota Soybean Processors, LLC (NDSP) and the City of Fargo. Under this agreement, the District will construct a soybean processing facility near Casselton, North Dakota. The project will be financed through a Cost-Share agreement with the State Water Commission, as well as bonds issued with the North Dakota Public Finance Authority. Upon completion of the project, the facility will be transferred to the City of Fargo, who is responsible for operation and maintenance of the facility. At this time, the District will receive the exclusive right to supply treated wastewater to the facility for 20 years. This project is expected to be completed in 2024 with an estimated cost of \$35,000,000. As of December 31, 2023, the District has received \$8,534,091 of debt additions relating to this project. As of December 31, 2023, the District has incurred total costs relating to this project of \$21,955,868.

The District also has a separate developers agreement with NDSP in regard to the bonds issued with the North Dakota Public Finance Authority to construct the soybean facility. NDSP has agreed to reimburse the District for the required annual principal and interest payments of the bonds, commencing upon completion of the project. NDSP has also agreed to fund any reserve requirement associated with the bonds. For security of these payments, NDSP must file an irrevocable letter of credit satisfactory to the District, which will remain in place until the bonds are retired or otherwise no longer outstanding.



Supplementary Information  
December 31, 2023

## Cass Rural Water Users District

Cass Rural Water Users District  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Environmental Protection Agency <i>Passed through the State of North Dakota -            Department of Environmental Quality            Drinking Water State Revolving Fund Cluster</i>	66.468	Unknown	\$ 1,374,156
Department of Treasury <i>Passed through the Sate of North Dakota -            Department of Water Resources            COVID-19 Coronavirus State and Local Fiscal Recovery Funds</i>	21.027	Unknown	<u>9,666,594</u>
Total Federal Financial Assistance			<u>\$ 11,040,750</u>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

**Note 3 - Indirect Cost Rate**

The District has not elected to use the 10% de minimis cost rate.



Other Information  
December 31, 2023 and 2022

## Cass Rural Water Users District

Cass Rural Water Users District  
Schedule of Directors, Officers and Manager (Unaudited)  
December 31, 2023

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<u>Name</u>	<u>Position</u>
Jon Zuther	Chairman
Jeff Dahl	Vice Chairman
Barry Bowman	Secretary/Treasurer
Toby McPherson	Director
Keith Finger	Director
Todd Ellison	Director
Mark Johnson	Director
Bradley Koetz	Director
Alan Idso	Director
Jerry Blomeke	General Manager

Cass Rural Water Users District  
Comparative Schedules of Operations (Unaudited)  
Years Ended December 31, 2019 - 2023

	2019		2020		2021		2022		2023	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenue	\$ 7,704,273	100.0 %	\$ 8,325,611	100.0 %	\$ 9,247,421	100.0 %	\$ 9,678,321	100.0 %	\$ 10,615,432	100.0 %
Operating Expenses										
Pumping	239,335	3.1	251,960	3.0	262,739	2.8	271,562	2.8	271,510	2.6
Water treatment and testing	176,361	2.3	181,758	2.2	214,368	2.3	234,548	2.4	264,899	2.5
Transmission and distribution	682,680	8.9	704,517	8.5	634,405	6.9	848,618	8.8	919,075	8.7
Administrative and general	1,134,151	14.7	1,152,328	13.8	1,292,137	14.0	1,427,251	14.7	1,523,305	14.3
Purchased water	2,088,963	27.1	2,250,620	27.0	2,574,292	27.8	2,455,689	25.4	3,008,761	28.3
Depreciation and amortization	1,747,364	22.7	1,904,333	22.9	1,971,545	21.3	2,001,167	20.7	2,196,977	20.7
Taxes	79,413	1.0	87,591	1.1	94,693	1.0	99,033	1.0	131,057	1.2
Total operating expenses	6,148,267	79.8	6,533,107	78.5	7,044,179	76.1	7,337,868	75.8	8,315,584	78.3
Operating Income	1,556,006	20.2	1,792,504	21.5	2,203,242	23.9	2,340,453	24.2	2,299,848	21.7
Nonoperating Revenues (Expenses)										
Investment income	132,173	1.7	117,610	1.4	17,372	0.2	119,353	1.2	431,491	4.1
Interest on special assessment	507,855	6.6	688,673	8.3	685,554	7.4	650,601	6.7	579,598	5.5
Special assessments	745,000	9.7	3,509,286	42.2	777,664	8.4	1,809,101	18.7	2,370,000	22.3
Capital contributions	-	-	-	-	-	-	-	-	-	-
Franchise fee payment	520	0.0	-	-	-	-	-	-	-	-
Interest expense	(850,693)	(11.0)	(895,254)	(10.8)	(822,983)	(8.9)	(759,833)	(7.9)	(819,782)	(7.7)
Other	1,723,821	22.4	708,083	8.5	829,962	9.0	1,547,068	16.0	18,460,167	173.9
Total nonoperating revenues (expenses), net	2,258,676	29.3	4,128,398	49.6	1,487,569	16.1	3,366,290	34.8	21,021,474	198.0
Change in Net Position	\$ 3,814,682	49.5 %	\$ 5,920,902	71.1 %	\$ 3,690,811	40.0 %	\$ 5,706,743	59.0 %	\$ 23,321,322	219.7 %



Additional Reports  
December 31, 2023 and 2022

## 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 (*Government Auditing Standards*), the financial statements of Cass Rural Water Users District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated March 26, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, 2023-003, and 2023-004, that we consider to be material weaknesses.

## **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The District's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
March 26, 2024



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Cass Rural Water Users District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control over Compliance

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Fargo, North Dakota  
March 26, 2024

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of Auditor's Report Issued	Unmodified
Internal Control over Financial Reporting	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

**FEDERAL AWARDS**

Internal Control over Major Programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of Auditor's Report Issued on Compliance for Major Programs	Unmodified
Any Audit Findings Disclosed That Are Required to be Reported in accordance with the Uniform Guidance: 2 CFR 200.516	No

**Identification of Major Programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Drinking Water State Revolving Fund Cluster	66.468
COVID - 19 Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 750,000
Auditee Qualified as Low-Risk Auditee?	No

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**Section I – Financial Statement Findings**

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**2023-001      Segregation of Duties  
Material Weakness**

*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), cash receipts, record keeping, reconciliation functions, general ledger maintenance, and information technologies.

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

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

*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.

*Recommendation* – 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, reconciliation functions, general ledger maintenance, and information technology systems would assist in mitigating the risk of fraud or misstatements to the financial statements.

*Views of Responsible Officials* – There is no disagreement with the finding.

**2023-002**      **Material Journal Entries**  
**Material Weakness**

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

*Condition* – During the course of our engagement, we proposed material audit adjustment 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.

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

*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.

*Recommendation* – 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.

*Views of Responsible Officials* – There is no disagreement with the finding.



**2023-003      Preparation of Financial Statements and Schedule of Expenditures of Federal Awards  
Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for recording, processing entries material to the financial statements, and preparation of the financial statements and related notes and schedule of expenditures of federal awards (SEFA).

*Condition* – The District does not have an internal control system designed to provide for the preparation of the financial statements and SEFA being audited. As auditors, we were requested to, and did, draft the financial statements, SEFA, and accompanying notes 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 and SEFA that would not be prevented or detected.

*Recommendation* – 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.

*Views of Responsible Officials* – There is no disagreement with the finding.

**2023-004 Account Reconciliation Differences  
Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for correcting all differences noted between the trial balances and subledgers or supporting schedules.

*Condition* – During the course of our engagement, we identified differences in account reconciliations that would not have been identified as a result of the District’s existing internal controls.

*Cause* – The District does not have an internal control system designed to accurately reconcile all accounts.

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

*Recommendation* – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and supervisor levels.

*Views of Responsible Officials* – There is no disagreement with the finding.

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**Section II – Federal Award Findings and Questioned Costs**

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None reported.