



Financial Statements
December 31, 2016 and 2015
Cass Rural Water Users District

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Cass Rural Water Users District as of and for the year ended December 31, 2016 and 2015, 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, 2016 and 2015, and the respective changes in financial position and its cash flows thereof 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 on pages 4 through 7 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 Boards 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The Comparative Schedule of Operations and Schedule of Expenditures of Federal Awards are the responsibility of management and were 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 Operations and Schedule of Expenditures of Federal Awards 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2017 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
March 23, 2017

This section of the District's financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2016. 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 \$12.7 million due primarily to new pipeline added during 2016.
- Operating expenses – Increased nearly 6.4% due increases in purchased water expenses, as well as water treatment and testing expenses.

Organization and Business

Cass Rural Water Users District provides water service to approximately 5,000 rural residences and 14 communities in Cass County and parts of Trail, Barnes, Ransom and Richland counties serving a total estimated population of 15,000 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

	2016	2015	2014
Assets			
Capital assets	\$ 44,265,314	\$ 34,886,212	\$ 31,379,589
Other property and investments	17,873,410	15,603,233	14,373,515
Current assets	6,479,444	5,358,195	4,662,105
Total assets	68,618,168	55,847,640	50,415,209
Liabilities			
Long-term debt, less current maturities	27,251,224	22,189,424	21,395,459
Other liabilities	2,404,073	2,706,052	1,847,354
Total liabilities	29,655,297	24,895,476	23,242,813
Net Position			
Invested in capital assets, net of related debt	14,979,964	10,435,027	8,645,960
Restricted for debt service	9,214,242	5,918,211	4,052,577
Unrestricted	14,768,665	14,598,926	14,473,859
Total net position	\$ 38,962,871	\$ 30,952,164	\$ 27,172,396

The total assets of the District increased by 23%, from \$56 million to \$69 million. The approximate increase in total assets is broken down as follows:

Water Plant in service	\$ 9,379,000
Current Assets	1,121,000
Other Property and Investments	2,270,000

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 \$1.2 million. This was a result of increase in cash and cash equivalents.

The net position of the District increased by approximately \$8.0 million.

Capital Assets and Debt Administration

At the end of 2016, the District had \$44 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, 2016 the District had total long term debt including current maturities outstanding of \$29 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, 2016 the District had funds on hand to make all debt payments through the year 2016. 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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Revenues	\$ 9,986,257	\$ 7,070,533	\$ 6,133,610
Total Expenses	<u>5,790,233</u>	<u>5,504,388</u>	<u>5,173,147</u>
Income	4,196,024	1,566,145	960,463
Capital Contributions			
Special assessment	<u>3,814,683</u>	<u>2,213,623</u>	<u>1,498,102</u>
Change in Net Position	8,010,707	3,779,768	2,458,565
Net Position, Beginning of Year	<u>30,952,164</u>	<u>27,172,396</u>	<u>24,713,831</u>
Net Position, End of Year	<u>\$ 38,962,871</u>	<u>\$ 30,952,164</u>	<u>\$ 27,172,396</u>

Overall operating expenses increased by 6.4% or approximately \$300,000. Purchased water expenses increased by \$207,000 due to increased water demand.

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.

	2016	2015
Assets		
Water Plant		
In service	\$ 48,157,392	\$ 43,530,935
Construction in progress	6,870,156	1,406,895
Total water plant	<u>55,027,548</u>	<u>44,937,830</u>
Less accumulated depreciation	10,762,234	10,051,618
Water plant - net	<u>44,265,314</u>	<u>34,886,212</u>
Other Property and Investments		
Intangible assets, net of accumulated amortization	6,775,200	7,296,369
Special assessment receivable, net of current portion	8,607,099	5,510,730
Patronage capital credits from nonassociated companies	233,961	230,884
Special funds	2,257,150	2,565,250
Total other property and investments	<u>17,873,410</u>	<u>15,603,233</u>
Current Assets		
Cash and cash equivalents	4,534,785	3,674,502
Cash and cash equivalents - restricted	31,125	155,358
Temporary investments	464,209	581,183
Accounts receivable, less accumulated provision for uncollectible accounts (2016 - \$0, 2015 - \$2,127)	675,034	449,885
Delinquent special assessment receivables	131,658	37,438
Special assessment receivable, current portion	607,143	407,481
Inventory	-	3,422
Prepaid Items	29,022	42,458
Interest receivable	6,468	6,468
Total current assets	<u>6,479,444</u>	<u>5,358,195</u>
Total assets	<u>\$ 68,618,168</u>	<u>\$ 55,847,640</u>

Cass Rural Water Users District
 Statements of Net Position
 December 31, 2016 and 2015

	2016	2015
Net Position and Liabilities		
Net Position		
Net investment in capital assets	\$ 14,979,964	\$ 10,435,027
Restricted for debt service	9,214,242	5,918,211
Unrestricted	14,768,665	14,598,926
Total net position	38,962,871	30,952,164
Long - Term Debt,		
Less Current Maturities	27,251,224	22,189,424
Current Liabilities		
Current maturities of long-term debt	2,034,126	2,261,761
Accounts payable	110,682	182,969
Accrued vacation	44,810	38,722
Accrued interest	214,455	222,600
Total current liabilities	2,404,073	2,706,052
Total net position and liabilities	\$ 68,618,168	\$ 55,847,640

Cass Rural Water Users District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Metered sales to customers	\$ 6,219,423	\$ 6,044,069
Miscellaneous	61,177	57,372
Total operating revenues	6,280,600	6,101,441
Operating Expenses		
Pumping expense	213,624	210,280
Water treatment and testing expense	122,039	103,679
Transmission and distribution expense	553,593	562,951
Administrative and general expense	998,350	1,006,293
Purchased water	1,733,236	1,526,034
Depreciation expense	784,707	702,194
Amortization expense	521,169	521,169
Taxes	65,081	58,262
Total operating expenses	4,991,799	4,690,862
Operating Income	1,288,801	1,410,579
Nonoperating Revenues (Expenses)		
Interest on special assessments	180,024	176,401
Investment income	26,452	27,217
Franchise fee payment	55,440	59,136
Grant revenue	3,311,307	744,014
Membership revenue	70,776	11,600
Bond issuance costs	(53,438)	(80,673)
Construction revenues	168,937	-
Construction expenses	(78,513)	-
Miscellaneous revenue	24,672	31,397
Interest expense	(798,434)	(813,526)
Total nonoperating revenues (expenses), net	2,907,223	155,566
Income Before Contributions	4,196,024	1,566,145
Capital Contributions		
Special assessments	3,814,683	2,213,623
Change in Net Position	8,010,707	3,779,768
Net Position, Beginning of Year	30,952,164	27,172,396
Net Position, End of Year	\$ 38,962,871	\$ 30,952,164

Cass Rural Water Users District
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Operating cash receipts from customers	\$ 9,870,134	\$ 8,320,854
Cash payments to suppliers for goods and services	(944,685)	(996,527)
Cash payments to employees for services	(992,262)	(994,269)
Miscellaneous payments	(1,798,317)	(1,584,296)
	6,134,870	4,745,762
Net Cash from Operating Activities		
Investing Activities		
Purchase of investments	-	(320,494)
Sale of investments	441,406	389,834
Interest received	26,452	27,217
	467,858	96,557
Net Cash from Investing Activities		
Capital and Related Financing Activities		
Interest payments on debt	(806,579)	(778,690)
Proceeds from long-term borrowings	6,365,173	2,971,794
Net additions to special assessments	(3,185,555)	(1,676,294)
Payment of bond issuance costs	(53,438)	(80,673)
Additions to plant	(10,092,795)	(4,167,690)
Proceeds from sale of plant	-	(41,529)
Proceeds from grant revenue	3,311,307	744,014
Principal payments on long-term debt	(1,531,007)	(1,254,237)
	(5,992,894)	(4,283,305)
Net Cash used for Capital and Related Financing Activities		
Noncapital Financing Activities		
Franchise fee payment	55,440	59,136
Membership revenue	70,776	11,600
	126,216	70,736
Net Cash from Noncapital Financing Activities		
Net Change in Cash and Cash Equivalents	736,050	629,750
Cash and Cash Equivalents, Beginning of Year	3,829,860	3,200,110
Cash and Cash Equivalents, End of Year	\$ 4,565,910	\$ 3,829,860

Cass Rural Water Users District
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activity Reconciliation		
Operating income	\$ 1,288,801	\$ 1,410,579
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	784,707	702,194
Amortization of intangible assets	521,169	521,169
Changes in assets and liabilities		
Accounts receivable	3,589,534	2,219,413
Inventory	3,422	-
Prepayments	13,436	(7,864)
Accounts payable	(72,287)	(111,753)
Accrued vacation	6,088	12,024
Net Cash from Operating Activities	\$ 6,134,870	\$ 4,745,762
Noncash Investing Activities		
Capital contribution recognized by special assessment	\$ 3,814,683	\$ 2,213,623
Refinancing of bonds through refunding	\$ -	\$ 2,060,000

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.

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.

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.

Temporary 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, 2016 and 2015, 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 1.74% and 1.71% in 2016 and 2015.

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 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 2016 and 2015 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 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.

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. The special assessments call for annual payments varying from \$60,000 to \$85,000 at 0.60% to 2.650% commencing in 2013 and ending 2027.

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.

In 2014, the District issued \$1,500,000 of 2014 Bonds and has levied the assessments on the property in the Eagle Point, Deer Creek, Fargo Park, and Davies Improvement Districts to pay for the bonds. The special assessments call for annual payments varying from \$90,000 to \$105,000 at 0.80% to 3.10% commencing in 2015 and ending 2029.

In 2015, the District issued \$2,235,000 of 2015 Bonds and has levied the assessments on the property in the Crofton Cove, Deer Creek, Golden Valley, and Crofton Improvement Districts to pay for the bonds. The special assessments call for annual payments varying from \$85,000 to \$175,000 at 0.80% to 3.50% commencing in 2016 and ending 2030.

In 2016, the District issued \$4,275,000 of 2016 Bonds and has levied the assessments on the property in the Golden Valley 2nd, Deer Creek 4th, Rocking Horse 2nd, Crofton Coves, Prairie Farms 2nd, and Eagle Valley 2nd Improvement Districts to pay for the bonds. The special assessments call for annual payments varying from \$250,000 to \$650,000 at 1.10% to 3.25% commencing in 2017 and ending 2031.

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, 2016 and 2015, 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, 2016, 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	\$ 1,730,000	\$ -	\$ 1,730,000
Government National Mortgage Association	\$ 63,361	\$ 63,361	\$ -

As of December 31, 2015, 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	\$ 1,580,000	\$ -	\$ 1,580,000
Government National Mortgage Association	\$ 77,021	\$ 77,021	\$ -

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, 2016 all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Cass Rural Water Users District
Notes to Financial Statements
December 31, 2016 and 2015

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

	2016	2015
Carrying Amount		
Deposits in bank	\$ 5,493,908	\$ 5,319,272
Certificates of deposit	1,730,000	1,580,000
Investments	63,361	77,021
	\$ 7,287,269	\$ 6,976,293
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 4,534,785	\$ 3,674,502
Cash and cash equivalents - restricted	31,125	155,358
Temporary cash investments	464,209	581,183
Special funds	2,257,150	2,565,250
	\$ 7,287,269	\$ 6,976,293

Note 5 - Water Plant And Depreciation

As of December 31, 2016:

	Balance 1/1/16	Additions	Retirements	Balance 12/31/16
Classified Water Plant in Service				
Construction in progress	\$ 1,406,895	\$ 9,838,073	\$ 4,374,812	\$ 6,870,156
Intangible plant				
Organization	3,191	-	-	3,191
Franchises and consents	316	-	-	316
	3,507	-	-	3,507
Distribution plant				
Land and land rights	695,436	20,054	-	715,490
Collecting and impounding reservoirs	3,744,354	-	-	3,744,354
Wells	817,751	-	-	817,751
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	879,725	10,953	-	890,678
Transmission and distribution mains	27,500,385	4,348,843	-	31,849,228
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Meters	1,110,186	120,300	-	1,230,486
	40,877,218	4,500,150	-	45,377,368
General plant				
Structures and improvements	890,040	4,461	-	894,501
Office furniture and equipment	236,094	11,391	-	247,485
Transportation equipment	324,958	28,172	74,091	279,039
Tools, shop and garage equipment	371,802	148,131	-	519,933
Other equipment - reservoir monitors	827,316	8,243	-	835,559
	2,650,210	200,398	74,091	2,776,517
Total water plant	\$ 44,937,830	\$ 14,538,621	\$ 4,448,903	\$ 55,027,548

Accumulated depreciation as of December 31, 2016:

	Depreciation Rates in %	Balance 1/01/16	Accruals	Retirements	Balance 12/31/16
Distribution Plant					
Collecting and impounding reservoirs	2.0	\$ 1,642,079	\$ 74,887	\$ -	\$ 1,716,966
Wells	2.0	294,711	16,355	-	311,066
Electric pumping equipment	5.0	910,132	-	-	910,132
Water treatment equipment	5.0	1,084,871	438	-	1,085,309
Transmission	1.0	4,259,498	423,157	-	4,682,655
Meters	4.0	561,956	49,219	-	611,175
Service Leads	1.0	19,053	2,116	-	21,169
Totals - distribution mains		<u>8,772,300</u>	<u>566,172</u>	<u>-</u>	<u>9,338,472</u>
General Plant					
Structures and improvements	2.0	103,854	17,890	-	121,744
Office furniture and equipment	10.0-15.0	217,439	2,159	-	219,598
Transportation equipment	33.3	240,568	36,940	74,091	203,417
Tools, shop and garage equipment	15.0	339,713	77,990	-	417,703
Reservoir monitors	10.0	377,744	83,556	-	461,300
Totals - general plant		<u>1,279,318</u>	<u>218,535</u>	<u>74,091</u>	<u>1,423,762</u>
Totals - all plant		<u>\$ 10,051,618</u>	<u>\$ 784,707</u>	<u>\$ 74,091</u>	<u>\$ 10,762,234</u>

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

The City of Fargo is responsible for the repayment of \$1,703,088 of 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, 2016 and 2015

As of December 31, 2015:

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
Classified Water Plant in Service				
Construction in progress	\$ 1,119,880	\$ 3,867,250	\$ 3,580,234	\$ 1,406,895
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	300,000	-	695,436
Collecting and impounding reservoirs	3,744,354	-	-	3,744,354
Wells	817,751	-	-	817,751
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	879,725	-	-	879,725
Transmission and distribution mains	24,719,530	2,780,855	-	27,500,385
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Meters	1,069,523	40,663	-	1,110,186
	<u>37,755,700</u>	<u>3,121,518</u>	<u>-</u>	<u>40,877,218</u>
General plant				
Structures and improvements	237,462	652,578	-	890,040
Office furniture and equipment	231,564	33,741	29,211	236,094
Transportation equipment	289,357	35,601	-	324,958
Tools, shop and garage equipment	338,936	32,866	-	371,802
Other equipment - reservoir monitors	823,348	3,968	-	827,316
	<u>1,920,667</u>	<u>758,754</u>	<u>29,211</u>	<u>2,650,210</u>
Total water plant	<u>\$ 40,799,754</u>	<u>\$ 7,747,522</u>	<u>\$ 3,609,445</u>	<u>\$ 44,937,830</u>

Cass Rural Water Users District
Notes to Financial Statements
December 31, 2016 and 2015

Accumulated depreciation as of December 31, 2015:

	Depreciation Rates in %	Balance 01/01/15	Accruals	Retirements	Balance 12/31/15
Distribution Plant					
Collecting and impounding reservoirs	2.0	\$ 1,567,192	\$ 74,887	\$ -	\$ 1,642,079
Wells	2.0	278,356	16,355	-	294,711
Electric pumping equipment	5.0	910,132	-	-	910,132
Water treatment equipment	5.0	1,084,871	-	-	1,084,871
Transmission	1.0	3,907,638	351,860	-	4,259,498
Meters	4.0	519,177	42,779	-	561,956
Service Leads	1.0	14,819	4,234	-	19,053
Totals - distribution mains		<u>8,282,185</u>	<u>490,115</u>	<u>-</u>	<u>8,772,300</u>
General Plant					
Structures and improvements	2.0	99,105	4,749	-	103,854
Office furniture and equipment	10.0-15.0	201,495	34,735	18,791	217,439
Transportation equipment	33.3	253,103	39,415	51,950	240,568
Tools, shop and garage equipment	15.0	288,873	50,840	-	339,713
Reservoir monitors	10.0	295,404	82,340	-	377,744
Totals - general plant		<u>1,137,980</u>	<u>212,079</u>	<u>70,741</u>	<u>1,279,318</u>
Totals - all plant		<u>\$ 9,420,165</u>	<u>\$ 702,194</u>	<u>\$ 70,741</u>	<u>\$ 10,051,618</u>

Note 6 - Long-Term Debt

Long term debt consists of:

	Balance January 1, 2016	Additions	Payments	Balance December 31, 2016	Due within One Year
Bank of North Dakota	\$ 179,904	\$ -	\$ 43,718	\$ 136,186	\$ 44,548
State Revolving Fund	1,015,000	-	90,000	925,000	90,000
Bond Issue 2006	149,000	-	21,000	128,000	22,000
Radcliffe Revocable Trust	87,258	-	7,870	79,388	8,274
North Dakota Public Finance Authority	11,910,651	-	740,000	11,170,651	765,000
North Dakota Public Finance Authority	960,000	-	55,000	905,000	60,000
Bremer Bond Issue	950,388	-	31,466	918,922	34,304
Bond Issue 2009	175,000	-	15,000	160,000	15,000
Bond Issue 2010	255,000	-	65,000	190,000	65,000
Tharaldson Ethanol Escrow	782,190	-	1,954	780,236	-
Starion Bond Series A	820,000	-	85,000	735,000	75,000
Starion Bond Series B	725,000	-	50,000	675,000	50,000
Starion Bond Series 2014	1,410,000	-	95,000	1,315,000	95,000
Refunding Improvement Bond 2015	390,000	-	45,000	345,000	45,000
Refunding Revenue Bonds of 2015	1,670,000	-	100,000	1,570,000	100,000
ND PFA SRF 2014	736,794	2,090,173	-	2,826,967	135,000
2015 Improvement Bond	2,235,000	-	85,000	2,150,000	135,000
2016 Improvement Bonds	-	4,275,000	-	4,275,000	295,000
	<u>\$ 24,451,185</u>	<u>\$ 6,365,173</u>	<u>\$ 1,531,008</u>	<u>\$ 29,285,350</u>	<u>\$ 2,034,126</u>

	Balance January 1, 2015	Additions	Payments	Balance December 31, 2015	Due within One Year
Bank of North Dakota	\$ 222,615	\$ -	\$ 42,711	\$ 179,904	\$ 43,674
Rural Utilities Service	1,631,484	-	1,631,484	-	-
State Revolving Fund	1,105,000	-	90,000	1,015,000	90,000
Bond Issue 2006	169,000	-	20,000	149,000	21,000
Radcliffe Revocable Trust	94,744	-	7,486	87,258	7,870
North Dakota Public Finance Authority	12,625,651	-	715,000	11,910,651	740,000
North Dakota Public Finance Authority	1,015,000	-	55,000	960,000	55,000
Bond Issue 2008	415,000	-	415,000	-	-
Bremer Bond Issue	980,987	-	30,599	950,388	27,423
Bond Issue 2009	190,000	-	15,000	175,000	15,000
Bond Issue 2010	320,000	-	65,000	255,000	65,000
Tharaldson Ethanol Escrow	784,148	-	1,958	782,190	-
Starion Bond Series A	905,000	-	85,000	820,000	85,000
Starion Bond Series B	775,000	-	50,000	725,000	50,000
Starion Bond Series 2014	1,500,000	-	90,000	1,410,000	95,000
Refunding Improvement Bond 2015	-	390,000	-	390,000	45,000
Refunding Revenue Bonds of 2015	-	1,670,000	-	1,670,000	100,000
ND PFA SRF 2014	-	736,794	-	736,794	736,794
2015 Improvement Bond	-	2,235,000	-	2,235,000	85,000
	<u>\$ 22,733,629</u>	<u>\$ 5,031,794</u>	<u>\$ 3,314,238</u>	<u>\$ 24,451,185</u>	<u>\$ 2,261,761</u>

Maturity dates and interest rates are as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>
Bank of North Dakota	2019	2.00%
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	2028	3.50%
North Dakota Public Finance Authority	2029	2.50%
Series 2008 Revenue Bond	2029	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	0.60 - 2.65%
Starion Bond Series B	2028	0.80 - 4.00%
Starion Bond Series 2014	2029	0.80 - 3.10%
Refunding Revenue Bonds of 2015	2030	0.90-3.00%
Refunding Improvement Bonds of 2015	2023	1.40 - 2.10%
Improvement Bonds of 2015	2030	0.80 - 3.50%
North Dakota Public Finance Authority	2034	2.00%
Improvement Bonds of 2016	2031	1.10 - 3.25%

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 2015, the District issued \$2,235,000 of Series 2015 Bonds. The agreement requires semi-annual payments, including interest, at an interest rate from 0.80% to 3.50%. Payments commence in May 2016 through May 2030.

During 2015, the District issued a note payable of \$3,000,000 with the North Dakota Public Finance Authority for the Reservoir E Expansion Project. As of December 31, 2016 \$2,090,173 has been borrowed on this note, with the remaining amount expected to be borrowed in future years as the project progresses.

In 2015, the Refunding Revenue Bonds of 2015 were issued to refund the outstanding debt of the USDA Rural Utility Service Loan. The refunding transaction resulted in an economic gain of \$349,807. Payments commence in May of 2016 through May of 2030.

In 2015, the Improvement Bonds of 2015 were issued to refund the outstanding debt of the Improvement Bonds of 2008. The refunding transaction resulted in an economic gain of \$34,882. Payments commence in May of 2016 through May of 2023.

During 2015, the District issued a note payable of \$3,000,000 with the North Dakota Public Finance Authority for the Reservoir E Expansion Project. As of December 31, 2018 \$2,090,173 has been borrowed on this note, with the remaining amount expected to be borrowed in future years as the project progresses.

During 2016, the District issued \$4,275,000 of Series 2016 Improvement Bonds. The agreement requires semi-annual payments, including interest, at an interest rate from 1.10% to 3.25%. Payments commence in May 2017 through May 2031.

Minimum principal and interest payments required are estimated as follows:

Years Ending December 31:	Long-term Debt	
	Principal	Interest
2017	\$ 2,034,126	\$ 975,793
2018	2,018,441	745,350
2019	2,066,734	692,110
2020	2,023,984	636,840
2021	2,061,937	579,962
2022-2026	10,679,952	1,979,057
2027-2031	7,595,582	474,521
2032-2036	804,594	42,891
	\$ 29,285,350	\$ 6,126,524

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:

Years Ending December 31:	
2017	\$ 17,964
2018	17,946
2019	17,919
2020	17,883
2021	17,838
2022-2024	35,861
	\$ 125,411

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, 2016 and 2015 was \$48,731 and \$46,049, respectively.

Note 8 - Pension Plan

The District contributes to the Simplified Employee Pension Individual Retirement Account, a defined contribution pension plan, for substantially all employees. The plan is administered by the District's Board of Directors. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board. The District is required to contribute 4 percent of the annual salary to individual employee accounts for each participating employee. District recognized pension expense of \$27,219. The District had a liability to the Plan of \$27,219 and \$25,333 at December 31, 2016 and 2015.

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, 2016. 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.

Construction Commitment

As of December 31, 2016 the District has \$350,000 in construction commitments for the Reservoir E Expansion Project for the remaining work to be completed.



Supplementary Information
December 31, 2016 and 2015

Cass Rural Water Users District

Cass Rural Water Users District
Schedule of Expenditures of Federal Awards
Years Ended December 31, 2016

<u>Federal Grantor/Program Title</u>	<u>Agency or Pass Through Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Environmental Protection Agency Passed through the State of North Dakota - North Dakota Public Finance Authority: Capitalization Grants for Drinking Water State Revolving Funds	0901060-04	66.468	<u>\$ 2,090,173</u>
Total expenditures of federal awards			<u><u>\$ 2,090,173</u></u>

Notes to Schedule of Expenditure of Federal Awards

Note 1 – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The District received federal awards indirectly through a pass-through entity. No federal financial assistance has been provided to a subrecipient.

Note 2 – Agency of Pass-Through Number

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District’s summary of significant accounting policies is presented in Note 1 in the District’s basic financial statements.

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

Cass Rural Water Users District
Schedule of Directors, Officers and Manager (Unaudited)
December 31, 2016

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

Cass Rural Water Users District
Comparative Schedules of Operations
Years Ended December 31, 2012 - 2016

	2012		2013		2014		2015		2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenue	\$ 5,795,153	100.0 %	\$ 5,893,466	100.0 %	\$ 5,773,348	100.0 %	\$ 6,101,441	100.0 %	\$ 6,280,600	100.0 %
Operating Expenses										
Pumping	203,983	3.5	224,438	3.8	230,763	4.0	210,280	3.4	213,624	3.4
Water treatment and testing	121,675	2.1	136,737	2.3	126,987	2.2	103,679	1.7	122,039	1.9
Transmission and distribution	454,160	7.8	525,641	8.9	522,268	9.0	562,951	9.2	553,593	8.8
Administrative and general	672,424	11.6	697,224	11.8	792,239	13.7	1,006,293	16.5	998,350	15.9
Purchased water	1,424,307	24.6	1,403,557	23.8	1,374,665	23.8	1,526,034	25.0	1,733,236	27.6
Depreciation and amortization	1,189,095	20.5	1,173,927	19.9	1,238,145	21.4	1,223,363	20.1	1,305,876	20.8
Taxes	44,107	0.8	47,072	0.8	53,883	0.9	58,262	1.0	65,081	1.0
Total operating expenses	4,109,751	70.9	4,208,596	71.3	4,338,950	75.0	4,690,862	76.9	4,991,799	79.4
Utility Operating Income	1,685,402	29.1	1,684,870	28.7	1,434,398	25.0	1,410,579	23.1	1,288,801	20.6
Other Income (Deductions)										
Investment income	137,217	2.4	104,254	1.8	30,568	0.5	58,614	1.0	26,452	0.4
Interest special assessment	163,891	2.8	141,690	2.4	135,112	2.3	176,401	2.9	180,024	2.9
Special assessment	771,750	13.3	815,827	13.8	1,498,102	25.9	2,213,623	36.3	3,814,683	60.7
Franchise fee payment	70,224	1.2	129,360	2.2	144,145	2.5	59,136	1.0	55,440	0.9
Interest expense	(892,320)	(15.4)	(871,684)	(14.8)	(834,197)	(14.4)	(813,526)	(13.3)	(798,434)	(12.7)
Other	320,065	5.5	500	0.0	50,437	0.9	674,941	11.1	3,443,741	54.8
Total other income (deductions)	570,827	9.9	319,947	5.4	1,024,167	17.7	2,369,189	38.8	6,721,906	107.0
Net Income	\$ 2,256,229	39.0 %	\$ 2,004,817	34.1 %	\$ 2,458,565	42.7 %	\$ 3,779,768	61.9 %	\$ 8,010,707	127.6 %



Additional Reports
December 31, 2016 and 2015

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, which comprise the statement of net position as of and for the year ended December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 23, 2017.

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.

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 2016-A, 2016-B, and 2016-C described in the accompanying schedule of audit findings and questioned costs to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Responses to Findings

The District's responses to the findings identified in our audit are described in the schedule of audit findings and questioned costs. The District's responses were not subjected to the 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 23, 2017



Independent Auditor’s Report on Compliance for the 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 the Major Federal Program

We have audited the District’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District’s major federal program for the year ended December 31, 2016. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for the District’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District’s compliance.

Opinion on the Major Federal Program

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 the major Federal program for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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 23, 2017

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 or Cluster</u>	<u>CFDA Number</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 750,000
Auditee Qualified as Low-Risk Auditee?	No

Section II – Financial Statement Findings

Material Weakness

2016-A Segregation of Duties

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.

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 – 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.

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

Material Weakness

2016-B Material Journal Entries

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 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.

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 – 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.

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

Material Weakness

2016-C Preparation of Financial Statements and Schedule of Expenditures of Federal Awards

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 the schedule of expenditures of federal awards.

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.

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.

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

Section III – Federal Awards Findings and Questioned Costs

None reported



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, 2016, and have issued our report thereon dated March 23, 2017.

In planning and performing our audit of the financial statements of the District for the year ended December 31, 2016, 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 2016-A, 2016-B, and 2016-C are material weaknesses as described in the schedule of findings.

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

Accounting Records

The District's accounting records and procedures in effect during the year were considered to be adequate in all material respects, except as noted in the internal control over financial reporting 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	17,811,100
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 \$24,482.

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.



Fargo, North Dakota
March 23, 2017