



Financial Statements  
December 31, 2017 and 2016  
**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, 2017 and 2016, 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, 2017 and 2016, 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 Comparative Schedule of Operations 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 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 14, 2018 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. 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 14, 2018

This section of the District's financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2017. 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 approximately \$3.2 million due primarily to new pipelines added during 2017.
- Operating expenses – Increased approximately 11.2% 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 5,300 rural residences and 14 communities in Cass County and parts of Trail, Barnes, Ransom and Richland counties serving a total estimated population of 19,500 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>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Capital assets	\$ 45,752,821	\$ 44,265,314	\$ 34,886,212
Other property and investments	18,527,981	17,873,410	15,603,233
Current assets	<u>7,623,393</u>	<u>6,479,444</u>	<u>5,358,195</u>
<b>Total assets</b>	<u>71,904,195</u>	<u>68,618,168</u>	<u>55,847,640</u>
<b>Liabilities</b>			
Long-term debt, less current maturities	26,836,830	27,251,224	22,189,424
Other liabilities	<u>2,520,421</u>	<u>2,404,073</u>	<u>2,706,052</u>
<b>Total liabilities</b>	<u>29,357,251</u>	<u>29,655,297</u>	<u>24,895,476</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	16,787,550	14,979,964	10,435,027
Restricted for debt service	10,482,388	9,214,242	5,918,211
Unrestricted	<u>15,277,006</u>	<u>14,768,665</u>	<u>14,598,926</u>
<b>Total net position</b>	<u>\$ 42,546,944</u>	<u>\$ 38,962,871</u>	<u>\$ 30,952,164</u>

The total assets of the District increased by 4.6%, from \$69 million to \$72 million. The approximate increase in total assets is broken down as follows:

Water Plant in service	\$ 1,488,000
Current Assets	1,144,000
Other Property and Investments	655,000

Current assets increased by approximately \$1.1 million. This was a result of increase in cash and cash equivalents.

The net position of the District increased by approximately \$3.5 million.

**Capital Assets and Debt Administration**

At the end of 2017, the District had approximately \$45.8 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, 2017 the District had total long term debt including current maturities outstanding of approximately \$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, 2017 the District had funds on hand to make all debt payments through the year 2018. 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>2017</u>	<u>2016</u>	<u>2015</u>
Total Revenues	\$ 8,273,975	\$ 9,986,257	\$ 7,070,533
Total Expenses	<u>6,589,651</u>	<u>5,790,233</u>	<u>5,504,388</u>
Income	1,684,324	4,196,024	1,566,145
Capital Contributions			
Special assessment	<u>1,899,749</u>	<u>3,814,683</u>	<u>2,213,623</u>
Change in Net Position	3,584,073	8,010,707	3,779,768
Net Position, Beginning of Year	<u>38,962,871</u>	<u>30,952,164</u>	<u>27,172,396</u>
Net Position, End of Year	<u><u>\$ 42,546,944</u></u>	<u><u>\$ 38,962,871</u></u>	<u><u>\$ 30,952,164</u></u>

Overall operating revenues increased by 14.5% or approximately \$900,000. Metered sales increased by approximately \$893,000 due to increased services. Overall operating expenses increased by 11.2% or approximately \$560,000. Purchased water expenses increased by approximately \$89,000 due to increased water demand. Special assessment capital contributions decreased by approximately \$1,915,000 due to less specials assessed during 2017.



### **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.

Cass Rural Water Users District  
 Statements of Net Position  
 December 31, 2017 and 2016

	2017	2016
Assets		
Water Plant		
In service	\$ 57,482,600	\$ 48,157,392
Construction in progress	137,235	6,870,156
Total water plant	57,619,835	55,027,548
Less accumulated depreciation	11,867,014	10,762,234
Water plant - net	45,752,821	44,265,314
Other Property and Investments		
Intangible assets, net of accumulated amortization	6,254,031	6,775,200
Special assessment receivable, net of current portion	9,761,328	8,607,099
Patronage capital credits from nonassociated companies	235,672	233,961
Special funds	2,276,950	2,257,150
Total other property and investments	18,527,981	17,873,410
Current Assets		
Cash and cash equivalents	4,216,699	4,534,785
Cash and cash equivalents - restricted	230,453	31,125
Temporary investments	1,507,573	464,209
Accounts receivable	780,397	675,034
Delinquent special assessment receivables	143,461	131,658
Special assessment receivable, current portion	721,060	607,143
Prepaid items	17,249	29,022
Interest receivable	6,501	6,468
Total current assets	7,623,393	6,479,444
Total assets	\$ 71,904,195	\$ 68,618,168
Net Position and Liabilities		
Net Position		
Net investment in capital assets	\$ 16,787,550	\$ 14,979,964
Restricted for debt service	10,482,388	9,214,242
Unrestricted	15,277,006	14,768,665
Total net position	42,546,944	38,962,871
Long - Term Debt,		
Less Current Maturities	26,836,830	27,251,224
Current Liabilities		
Current maturities of long-term debt	2,128,441	2,034,126
Accounts payable	135,741	110,682
Accrued vacation	38,976	44,810
Accrued interest	217,263	214,455
Total current liabilities	2,520,421	2,404,073
Total net position and liabilities	\$ 71,904,195	\$ 68,618,168

Cass Rural Water Users District  
 Statements of Revenues, Expenses, and Changes in Net Position  
 Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Metered sales to customers	\$ 7,112,840	\$ 6,219,423
Miscellaneous	67,993	61,177
Total operating revenues	7,180,833	6,280,600
Operating Expenses		
Pumping	235,828	213,624
Water treatment and testing	128,108	122,039
Transmission and distribution	546,231	553,593
Administrative and general	1,046,324	998,350
Purchased water	1,822,720	1,733,236
Depreciation	1,180,404	784,707
Amortization	521,169	521,169
Taxes	68,690	65,081
Total operating expenses	5,549,474	4,991,799
Operating Income	1,631,359	1,288,801
Nonoperating Revenues (Expenses)		
Interest on special assessments	354,737	180,024
Investment income	38,482	26,452
Franchise fee payment	36,960	55,440
Grant revenue	185,851	3,311,307
Membership revenue	38,650	70,776
Bond issuance costs	(22,950)	(53,438)
Construction revenues	402,310	168,937
Construction expenses	(116,523)	(78,513)
Miscellaneous revenue	36,152	24,672
Interest expense	(900,704)	(798,434)
Total nonoperating revenues (expenses), net	52,965	2,907,223
Income Before Capital Contributions	1,684,324	4,196,024
Capital Contributions		
Special assessments	1,899,749	3,814,683
Change in Net Position	3,584,073	8,010,707
Net Position, Beginning of Year	38,962,871	30,952,164
Net Position, End of Year	\$ 42,546,944	\$ 38,962,871

Cass Rural Water Users District  
 Statements of Cash Flows  
 Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Operating cash receipts from customers	\$ 8,975,219	\$ 9,870,134
Cash payments to suppliers for goods and services	(873,335)	(944,685)
Cash payments to employees for services	(1,052,158)	(992,262)
Miscellaneous payments	(1,891,410)	(1,798,317)
	5,158,316	6,134,870
Net Cash from Operating Activities		
Investing Activities		
Purchase of investments	(1,063,164)	-
Sale of investments	-	441,406
Interest received	38,449	26,452
	(1,024,715)	467,858
Net Cash from (used for) Investing Activities		
Capital and Related Financing Activities		
Interest payments on debt	(897,896)	(806,579)
Proceeds from long-term borrowings	1,705,514	6,365,173
Net additions to special assessments	(889,060)	(3,185,555)
Payment of bond issuance costs	(22,950)	(53,438)
Proceeds from construction revenue, net	285,787	90,424
Additions to plant	(2,669,622)	(10,183,219)
Proceeds from grant revenue	185,851	3,311,307
Principal payments on long-term debt	(2,025,593)	(1,531,007)
	(4,327,969)	(5,992,894)
Net Cash used for Capital and Related Financing Activities		
Noncapital Financing Activities		
Franchise fee payment	36,960	55,440
Membership revenue	38,650	70,776
	75,610	126,216
Net Cash from Noncapital Financing Activities		
Net Change in Cash and Cash Equivalents	(118,758)	736,050
Cash and Cash Equivalents, Beginning of Year	4,565,910	3,829,860
Cash and Cash Equivalents, End of Year	\$ 4,447,152	\$ 4,565,910

Cass Rural Water Users District  
 Statements of Cash Flows  
 Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activity Reconciliation		
Operating income	\$ 1,631,359	\$ 1,288,801
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	1,180,404	784,707
Amortization of intangible assets	521,169	521,169
Changes in assets and liabilities		
Accounts receivable	1,794,386	3,589,534
Inventory	-	3,422
Prepayments	11,773	13,436
Accounts payable	25,059	(72,287)
Accrued vacation	(5,834)	6,088
	\$ 5,158,316	\$ 6,134,870
Net Cash from Operating Activities		
 Noncash Investing Activities		
Capital contribution recognized by special assessment	\$ 1,899,749	\$ 3,814,683

### **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, 2017 and 2016, the District has complied with the reserve account requirements of the loan agreements.

### **Restricted Cash**

Several of the District's loan agreements require restricted deposits set aside for use in the related capital project. The District also has deposits from rental customers included in restricted cash.

### **Plant Additions and Retirements**

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

### **Depreciation**

Depreciation is computed on the straight-line method based upon estimated useful lives of the various classes of property. Such provision, as a percentage of the average balance of depreciable property in service, was 2.27% and 1.74% in 2017 and 2016.

### **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 2017 and 2016 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.

### **Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassification had no impact on net position.

## **Note 3 - Long-Term Receivables**

### **Special assessments**

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

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

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



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

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

In 2012, the District levied additional assessments on the properties in the Deer Creek, Silverleaf, Maple Valley and other smaller improvement districts. 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 2<sup>nd</sup>, Deer Creek 4<sup>th</sup>, Rocking Horse 2<sup>nd</sup>, Crofton Coves, Prairie Farms 2<sup>nd</sup>, and Eagle Valley 2<sup>nd</sup> 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.

In 2017, the District issued \$1,530,000 of 2017 Bonds and has levied the assessments on the property in the Maple Valley, Eagle Point 3<sup>rd</sup>, Deer Creek 6<sup>th</sup>, Woodhurst 31<sup>st</sup>, Eagle Valley 1<sup>st</sup>, Lake Shure, and Wilds 8<sup>th</sup> Improvement Districts to pay for the bonds. The special assessments call for annual payments varying from \$75,000 to \$240,000 at 1.75% to 3.65% commencing in 2018 and ending 2032.

#### **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, 2017 and 2016, 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, 2017, the District has the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>
Certificate of Deposits	\$ 2,855,000	\$ 750,000	\$ 2,105,000
Government National Mortgage Association	\$ 51,452	\$ 51,452	\$ -

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	\$ -

### **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, 2017 deposits held with Kindred State Bank were not fully insured or collateralized by securities held in the District's name by \$201,674.

Cass Rural Water Users District  
Notes to Financial Statements  
December 31, 2017 and 2016

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

	2017	2016
Carrying Amount		
Deposits in bank	\$ 5,325,223	\$ 5,493,908
Certificates of deposit	2,855,000	1,730,000
Investments	51,452	63,361
	\$ 8,231,675	\$ 7,287,269
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 4,216,699	\$ 4,534,785
Cash and cash equivalents - restricted	230,453	31,125
Temporary cash investments	1,507,573	464,209
Special funds	2,276,950	2,257,150
	\$ 8,231,675	\$ 7,287,269

**Note 5 - Water Plant And Depreciation**

As of December 31, 2017:

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
Classified Water Plant in Service				
Construction in progress	\$ 6,870,156	\$ 2,323,244	\$ 9,056,165	\$ 137,235
Intangible plant				
Organization	3,191	-	-	3,191
Franchises and consents	316	-	-	316
	3,507	-	-	3,507
Distribution plant				
Land and land rights	715,490	22,560	-	738,050
Collecting and impounding reservoirs	3,744,354	-	-	3,744,354
Wells	817,751	475,896	-	1,293,647
Electric pumping equipment	874,943	-	-	874,943
Water treatment equipment	890,678	4,549,835	-	5,440,513
Transmission and distribution mains	31,849,228	2,098,846	-	33,948,074
Transmission mains - Ethanol pipe	5,233,269	-	-	5,233,269
Service leads	21,169	-	-	21,169
Meters	1,230,486	157,269	-	1,387,755
	45,377,368	7,304,406	-	52,681,774
General plant				
Structures and improvements	894,501	1,278,947	-	2,173,448
Office furniture and equipment	247,485	30,708	1,435	276,758
Transportation equipment	279,039	80,954	26,034	333,959
Tools, shop and garage equipment	519,933	43,576	-	563,509
Other equipment - reservoir monitors	835,559	662,241	48,155	1,449,645
	2,776,517	2,096,426	75,624	4,797,319
Total water plant	\$ 55,027,548	\$ 11,724,076	\$ 9,131,789	\$ 57,619,835

Accumulated depreciation as of December 31, 2017:

	Depreciation Rates in %	Balance 1/01/17	Accruals	Retirements	Balance 12/31/17
<b>Distribution Plant</b>					
Collecting and impounding reservoirs	2.0	\$ 1,716,966	\$ 74,887	\$ -	\$ 1,791,853
Wells	2.0	311,066	25,873	-	336,939
Electric pumping equipment	5.0	874,943	-	-	874,943
Water treatment equipment	5.0	883,646	217,620	-	1,101,266
Transmission	1.0	4,919,507	444,145	-	5,363,652
Meters	4.0	611,075	55,510	-	666,585
Service Leads	1.0	21,169	-	-	21,169
Totals - distribution mains		<u>9,338,372</u>	<u>818,035</u>	<u>-</u>	<u>10,156,407</u>
<b>General Plant</b>					
Structures and improvements	2.0	121,743	43,469	-	165,212
Office furniture and equipment	10.0-15.0	219,598	43,566	1,435	261,729
Transportation equipment	33.3	203,523	45,847	26,034	223,336
Tools, shop and garage equipment	15.0	417,703	84,526	-	502,229
Reservoir monitors	10.0	461,295	144,961	48,155	558,101
Totals - general plant		<u>1,423,862</u>	<u>362,369</u>	<u>75,624</u>	<u>1,710,607</u>
Totals - all plant		<u>\$ 10,762,234</u>	<u>\$ 1,180,404</u>	<u>\$ 75,624</u>	<u>\$ 11,867,014</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, 2017 and 2016

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
	<u>3,507</u>	<u>-</u>	<u>-</u>	<u>3,507</u>
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
	<u>40,877,218</u>	<u>4,500,150</u>	<u>-</u>	<u>45,377,368</u>
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
	<u>2,650,210</u>	<u>200,398</u>	<u>74,091</u>	<u>2,776,517</u>
Total water plant	<u>\$ 44,937,830</u>	<u>\$ 14,538,621</u>	<u>\$ 4,448,903</u>	<u>\$ 55,027,548</u>

Cass Rural Water Users District  
Notes to Financial Statements  
December 31, 2017 and 2016

Accumulated depreciation as of December 31, 2016:

	Depreciation Rates in %	Balance 01/01/16	Accruals	Retirements	Balance 12/31/16
<b>Distribution Plant</b>					
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	874,943	-	-	874,943
Water treatment equipment	5.0	883,208	438	-	883,646
Transmission	1.0	4,496,350	423,157	-	4,919,507
Meters	4.0	561,856	49,219	-	611,075
Service Leads	1.0	19,053	2,116	-	21,169
Totals - distribution mains		<u>8,772,200</u>	<u>566,172</u>	<u>-</u>	<u>9,338,372</u>
<b>General Plant</b>					
Structures and improvements	2.0	103,853	17,890	-	121,743
Office furniture and equipment	10.0-15.0	217,439	2,159	-	219,598
Transportation equipment	33.3	240,674	36,940	74,091	203,523
Tools, shop and garage equipment	15.0	339,713	77,990	-	417,703
Reservoir monitors	10.0	377,739	83,556	-	461,295
Totals - general plant		<u>1,279,418</u>	<u>218,535</u>	<u>74,091</u>	<u>1,423,862</u>
Totals - all plant		<u>\$ 10,051,618</u>	<u>\$ 784,707</u>	<u>\$ 74,091</u>	<u>\$ 10,762,234</u>

**Note 6 - Long-Term Debt**

Long term debt consists of:

	Balance January 1, 2017	Additions	Payments	Balance December 31, 2017	Due within One Year
Bank of North Dakota	\$ 136,186	\$ -	\$ 44,580	\$ 91,606	\$ 45,439
State Revolving Fund	925,000	-	90,000	835,000	95,000
Bond Issue 2006	128,000	-	22,000	106,000	23,000
Radcliffe Revocable Trust	79,388	-	8,274	71,114	8,699
ND Public Finance Authority	11,170,651	-	765,000	10,405,651	790,000
ND Public Finance Authority	905,000	-	60,000	845,000	60,000
Bremer Bond Issue	918,922	-	33,790	885,132	31,303
Bond Issue 2009	160,000	-	15,000	145,000	15,000
Bond Issue 2010	190,000	-	65,000	125,000	65,000
Tharaldson Ethanol Escrow	780,236	2,481	1,949	780,768	-
Starion Bond Series A	735,000	-	75,000	660,000	75,000
Starion Bond Series B	675,000	-	50,000	625,000	55,000
Starion Bond Series 2014	1,315,000	-	95,000	1,220,000	95,000
Refunding Improvement Bonds 2015	345,000	-	45,000	300,000	50,000
Refunding Revenue Bonds of 2015	1,570,000	-	100,000	1,470,000	100,000
ND PFA SRF 2014	2,826,967	173,033	125,000	2,875,000	135,000
2015 Improvement Bond	2,150,000	-	135,000	2,015,000	135,000
2016 Improvement Bond	4,275,000	-	295,000	3,980,000	250,000
2017 Improvement Bond	-	1,530,000	-	1,530,000	100,000
	<u>\$ 29,285,350</u>	<u>\$ 1,705,514</u>	<u>\$ 2,025,593</u>	<u>\$ 28,965,271</u>	<u>\$ 2,128,441</u>

  

	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
ND Public Finance Authority	11,910,651	-	740,000	11,170,651	765,000
ND 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 Bonds 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 Bond	-	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>

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 2006	2023	5.20%
Radcliffe Revocable Trust	2024	5.02%
ND Public Finance Authority	2028	3.50%
ND Public Finance Authority	2029	4.25%
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 Improvement Bonds of 2015	2023	1.40 - 2.10%
Refunding Revenue Bonds of 2015	2030	0.90-3.00%
ND PFA SRF 2014	2034	2.00%
2015 Improvement Bond	2030	0.80 - 3.50%
2016 Improvement Bond	2031	1.10 - 3.25%
2017 Improvement Bond	2032	1.75 - 3.65%

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 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.

During 2017, the District issued \$1,530,000 of Series 2017 Improvement Bonds. The agreement requires semi-annual payments, including interest, at an interest rate of 1.75% to 3.65%. Payments commence in May 2018 through May 2032.



Minimum principal and interest payments required are estimated as follows:

Years Ending December 31:	Long-term Debt	
	Principal	Interest
2018	\$ 2,128,441	\$ 891,604
2019	2,161,658	831,493
2020	2,123,984	770,306
2021	2,166,937	706,435
2022	2,201,924	639,698
2023-2027	11,323,291	2,106,143
2028-2032	6,326,627	440,147
2033-2034	532,409	21,015
	\$ 28,965,271	\$ 6,406,841

**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:	
2018	\$ 17,946
2019	17,919
2020	17,883
2021	17,838
2022	17,964
2023-2024	17,897
	\$ 107,447

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, 2017 and 2016 was \$73,098 and \$48,731, 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 \$27,751. The District had a liability to the Plan of \$27,751 and \$27,219 at December 31, 2017 and 2016.

## **Note 9 - Commitments and Agreements**

### **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 \$3.25 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, 2017. 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 \$1.89 per bill.

## **Note 10 - Subsequent Events**

Subsequent to year end, the District entered into a contract in the amount of \$2,102,893 for work to be completed on the Leonard Area Arsenic Project. This project will be funded by the North Dakota State Water Commission through the Garrison Diversion Conservancy District.



Supplementary Information  
December 31, 2017 and 2016

# Cass Rural Water Users District

Cass Rural Water Users District  
Schedule of Directors, Officers and Manager (Unaudited)  
December 31, 2017

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

Cass Rural Water Users District  
Comparative Schedules of Operations  
Years Ended December 31, 2013 - 2017

	2013		2014		2015		2016		2017	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenue	\$ 5,893,466	100.0 %	\$ 5,773,348	100.0 %	\$ 6,101,441	100.0 %	\$ 6,280,600	100.0 %	\$ 7,180,833	100.0 %
Operating Expenses										
Pumping	224,438	3.8	230,763	4.0	210,280	3.4	213,624	3.4	235,828	3.3
Water treatment and testing	136,737	2.3	126,987	2.2	103,679	1.7	122,039	1.9	128,108	1.8
Transmission and distribution	525,641	8.9	522,268	9.0	562,951	9.2	553,593	8.8	546,231	7.6
Administrative and general	697,224	11.8	792,239	13.7	1,006,293	16.5	998,350	15.9	1,046,324	14.6
Purchased water	1,403,557	23.8	1,374,665	23.8	1,526,034	25.0	1,733,236	27.6	1,822,720	25.4
Depreciation and amortization	1,173,927	19.9	1,238,145	21.4	1,223,363	20.1	1,305,876	20.8	1,701,573	23.7
Taxes	47,072	0.8	53,883	0.9	58,262	1.0	65,081	1.0	68,690	1.0
Total operating expenses	4,208,596	71.3	4,338,950	75.0	4,690,862	76.9	4,991,799	79.4	5,549,474	77.4
Operating Income	1,684,870	28.7	1,434,398	25.0	1,410,579	23.1	1,288,801	20.6	1,631,359	22.6
Nonoperating Revenues (Expenses)										
Investment income	104,254	1.8	30,568	0.5	58,614	1.0	26,452	0.4	38,482	0.5
Interest on special assessments	141,690	2.4	135,112	2.3	176,401	2.9	180,024	2.9	354,737	4.9
Special assessments	815,827	13.8	1,498,102	25.9	2,213,623	36.3	3,814,683	60.7	1,899,749	26.5
Franchise fee payment	129,360	2.2	144,145	2.5	59,136	1.0	55,440	0.9	36,960	0.5
Interest expense	(871,684)	(14.8)	(834,197)	(14.4)	(813,526)	(13.3)	(798,434)	(12.7)	(900,704)	(12.5)
Other	500	0.0	50,437	0.9	674,941	11.1	3,443,741	54.8	523,490	7.3
Total nonoperating revenues (expenses), net	319,947	5.4	1,024,167	17.7	2,369,189	38.8	6,721,906	107.0	1,952,714	27.2
Net Income	\$ 2,004,817	34.1 %	\$ 2,458,565	42.7 %	\$ 3,779,768	61.9 %	\$ 8,010,707	127.6 %	\$ 3,584,073	49.8 %



Additional Reports  
December 31, 2017 and 2016

# 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, 2017, 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 14, 2018.

**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 2017-A, 2017-B, and 2017-C described in the accompanying schedule of audit findings and questioned costs to be material weaknesses.

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

**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 corrective action plan. 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 14, 2018



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**Section II – Financial Statement Findings**

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**Material Weakness**

**2017-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**

**2017-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**

**2017-C            Preparation of Financial Statements**

*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.

*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.