

North Dakota Office of the State Auditor

Cavalier County

Audit Report for the Year Ended December 31, 2018



North Dakota State Auditor
Joshua C. Gallion

CAVALIER COUNTY

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CAVALIER COUNTY

County Officials and Audit Personnel
December 31, 2018

COUNTY OFFICIALS

David Zeis	Commissioner – Chairman
Nick Moser	Commissioner – Vice Chairman
Greg Goodman	Commissioner
Austin Lafrenz	Commissioner
Stanley Dick	Commissioner
Lisa Gellner	Auditor
Cynthia Stremick	Treasurer
Greg Fetsch	Sheriff
Vicki Kubat	County Recorder
R. Scott Stewart	State's Attorney
Anita Beauschamp	Clerk of Court
Terry Johnston	Road Supervisor
Karen Kempert	Emergency Manager

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cavalier County
Langdon, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Cavalier County'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, North Dakota, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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 *budgetary comparison schedules, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and notes to the required supplementary information*, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cavalier County's basic financial statements. The *schedule of expenditures of federal awards*, 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, is presented for purposes of additional analysis and is not a required part of the financial statements.

The *schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 *schedule of expenditures of federal awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019 on our consideration of Cavalier County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cavalier County's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
October 4, 2019

CAVALIER COUNTY

Statement of Net Position

December 31, 2018

	Primary Government	
	Governmental Activities	Component Units
ASSETS		
Cash, Cash Equivalents and Investments	\$ 7,539,440	\$ 857,910
Accounts Receivable	-	-
Intergovernmental Receivable	230,938	-
Road Accounts Receivable	48,150	-
Taxes Receivable	68,227	7,690
Loans Receivable	123,498	365,199
Capital Assets		
Nondepreciable	55,000	-
Depreciable, Net	13,701,853	1,736,371
Total Assets	<u>\$ 21,767,106</u>	<u>\$ 2,967,170</u>
DEFERRED OUTFLOWS OF RESOURCES		
Derived from Pensions and OPEB	<u>\$ 1,346,943</u>	<u>\$ 121,199</u>
LIABILITIES		
Accounts Payable	\$ 42,948	\$ -
Grants Received in Advance	444,377	-
Salaries and Benefits Payable	6,970	3,742
City Loans Payable	-	290,428
Interest Payable	10,128	457
Long-Term Liabilities		
Due Within One Year		
Long-Term Debt	214,917	46,534
Compensated Absences	30,555	3,614
Due Outside One Year		
Long-Term Debt	608,939	7,138
Compensated Absences	274,999	32,521
Net Pension & OPEB Liability	3,445,575	290,798
Total Liabilities	<u>\$ 5,079,408</u>	<u>\$ 675,232</u>
DEFERRED INFLOWS OF RESOURCES		
Taxes Received in Advance	\$ 1,273,312	\$ -
Derived from Pensions and OPEB	<u>238,876</u>	<u>22,018</u>
Total Deferred Inflows of Resources	<u>\$ 1,512,188</u>	<u>\$ 22,018</u>
NET POSITION		
Net Investment in Capital Assets	\$ 12,932,997	\$ 1,729,241
Restricted		
Highways & Bridges	1,238,524	-
Health & Welfare	-	126,253
Culture & Recreation	-	83,113
Conservation of Natural Resources	128,542	351,260
Emergencies	84,673	-
Economic Development	-	101,252
Unrestricted	<u>2,137,717</u>	<u>-</u>
Total Net Position	<u><u>\$ 16,522,453</u></u>	<u><u>\$ 2,391,119</u></u>

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Fines, Forfeits & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary Government						
Governmental Activities						
General Government	\$ 1,873,297	\$ 130,564	\$ -	\$ -	\$ (1,742,733)	
Public Safety	1,302,958	324,449	61,921	-	(916,588)	
Highways & Bridges	3,472,030	572,478	700,634	8,665	(2,190,253)	
Health & Welfare	1,017,413	68,764	933,293	-	(15,356)	
Flood Repair	1,081,229	-	1,131,492	-	50,263	
Conservation of Natural Resources	377,685	9,181	54,715	-	(313,789)	
Miscellaneous	24,950	-	-	-	(24,950)	
Interest and Fees on Long-Term Debt	27,080	-	-	-	(27,080)	
Total Governmental Activities	\$ 9,176,642	\$ 1,105,436	\$ 2,882,055	\$ 8,665	\$ (5,180,486)	
Component Units						
Governmental Activities						
Water Resource District	\$ 549,846	\$ 282,567	\$ 50,592	\$ -	\$ -	\$ (216,687)
Health District	462,660	93,594	313,413	-	-	(55,653)
Job Development Authority	351,261	5,731	60,000	-	-	(285,530)
County Library	131,792	1,691	10,473	-	-	(119,628)
Total Component Units	\$ 1,495,559	\$ 383,583	\$ 434,478	\$ -	\$ -	\$ (677,498)
General Revenues						
Property taxes				\$ 3,748,959	\$ 455,926	
Sales taxes				-	24,928	
Nonrestricted Grants and Contributions				520,705	-	
Unrestricted investment earnings				45,864	6,308	
Miscellaneous revenue				178,270	42,253	
Total General Revenues				\$ 4,493,798	\$ 529,415	
Change in Net Position				\$ (686,688)	\$ (148,083)	
Net Position - January 1				\$ 17,209,141	\$ 2,546,356	
Prior Period Adjustment				-	(7,154)	
Net Position - January 1, as restated				\$ 17,209,141	\$ 2,539,202	
Net Position - December 31				\$ 16,522,453	\$ 2,391,119	

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTYBalance Sheet – Governmental Funds
December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,889,437	\$ 3,650,003	\$ 7,539,440
Intergovernmental Receivable	144,128	86,810	230,938
Loan Receivables	123,498	-	123,498
Road Receivables	-	48,150	48,150
Taxes Receivable	31,524	36,703	68,227
Total Assets	\$ 4,188,587	\$ 3,821,666	\$ 8,010,253
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 5,261	\$ 37,687	\$ 42,948
Salaries Payable	6,970	-	6,970
Grants Received in Advance	-	444,377	444,377
Total Liabilities	\$ 12,231	\$ 482,064	\$ 494,295
Deferred Inflows of Resources			
Road Receivables	\$ -	\$ 48,150	\$ 48,150
Taxes Received in Advance	548,573	724,739	1,273,312
Taxes Receivable	31,524	36,703	68,227
Total Deferred Inflows of Resources	\$ 580,097	\$ 809,592	\$ 1,389,689
Total Liabilities and Deferred Inflows of Resources	\$ 592,328	\$ 1,291,656	\$ 1,883,984
Fund Balances			
Nonspendable			
Loan Receivable	\$ 123,499	\$ -	\$ 123,499
Restricted			
General Government	-	13,776	13,776
Public Safety	-	322,447	322,447
Highways & Bridges	-	1,705,202	1,705,202
Health & Welfare	-	186,761	186,761
Conservation of Natural Resources	-	217,362	217,362
Emergencies	-	84,462	84,462
Unassigned	3,472,760	-	3,472,760
Total Fund Balances	\$ 3,596,259	\$ 2,530,010	\$ 6,126,269
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,188,587	\$ 3,821,666	\$ 8,010,253

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total Fund Balances - Governmental Funds \$ 6,126,269

Total *net position* reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 13,756,853

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflow of resources in the funds.

Property Taxes Receivable	\$ 68,227	
Road Department Accounts Receivable	<u>48,150</u>	116,377

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB	\$ 1,346,943	
Deferred Inflows Related to Pensions and OPEB	<u>(238,876)</u>	1,108,067

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

Loans Payable	\$ (823,856)	
Interest Payable	(10,128)	
Compensated Absences Payable	(305,554)	
Net Pension and OPEB Liability	<u>(3,445,575)</u>	<u>(4,585,113)</u>

Total Net Position of Governmental Activities \$ 16,522,453

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTYStatement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 1,810,579	\$ 1,928,670	\$ 3,739,249
Intergovernmental	629,479	2,773,281	3,402,760
Charges for Services	366,628	727,849	1,094,477
Licenses, Permits and Fees	1,053	-	1,053
Interest Income	45,864	-	45,864
Miscellaneous	96,777	81,493	178,270
Total Revenues	<u>\$ 2,950,380</u>	<u>\$ 5,511,293</u>	<u>\$ 8,461,673</u>
EXPENDITURES			
Current			
General Government	\$ 1,750,179	\$ 5,158	\$ 1,755,337
Public Safety	1,149,672	87,969	1,237,641
Highways & Bridges	-	3,113,822	3,113,822
Health & Welfare	59,256	938,588	997,844
Flood Repair	-	1,081,229	1,081,229
Conserv. of Natural Resources	-	378,348	378,348
Other	24,950	-	24,950
Debt Service			
Principal	304,145	193,186	497,331
Interest	18,230	14,404	32,634
Total Expenditures	<u>\$ 3,306,432</u>	<u>\$ 5,812,704</u>	<u>\$ 9,119,136</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (356,052)</u>	<u>\$ (301,411)</u>	<u>\$ (657,463)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 861,834	\$ 456,511	\$ 1,318,345
Transfers Out	(108,140)	(1,210,205)	(1,318,345)
Total Other Financing Sources and Uses	<u>\$ 753,694</u>	<u>\$ (753,694)</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ 397,642</u>	<u>\$ (1,055,105)</u>	<u>\$ (657,463)</u>
Fund Balances - January 1	<u>\$ 3,198,617</u>	<u>\$ 3,585,115</u>	<u>\$ 6,783,732</u>
Fund Balances - December 31	<u>\$ 3,596,259</u>	<u>\$ 2,530,010</u>	<u>\$ 6,126,269</u>

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (657,463)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 725,162	
Depreciation Expense	<u>(849,969)</u>	(124,807)

In the statement of activities, only the loss on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (18,309)

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term debt in the statement of net position. The issuance of long-term debt is reported as other financing sources in the governmental funds, but increases liabilities on the statement of net position.

Repayment of Long-Term Debt		497,331
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Decrease in Interest Payable	\$ 5,554	
Decrease in Retainage Payable	1,731	
Increase in Compensated Absences Payable	<u>(23,786)</u>	(16,501)

The net pension and OPEB liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension & OPEB Liability	\$ (124,813)	
Decrease in Deferred Outflows of Resources Related to Pensions	(176,692)	
Increase in Deferred Inflows of Resources Related to Pensions	<u>(85,050)</u>	(386,555)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Increase in Taxes Receivable	\$ 9,710	
Increase in Road Receivables	<u>9,906</u>	<u>19,616</u>

Change in Net Position of Governmental Activities \$ (686,688)

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Statement of Net Position – Discretely Presented Component Units
For the Year Ended December 31, 2018

	Water Resource District	Health District	Job Development Authority	County Library	Total
ASSETS					
Cash, Cash Equivalents and Investments	\$ 387,640	\$ 290,195	\$ 101,099	\$ 78,976	\$ 857,910
Taxes Receivable	1,838	1,016	3,105	1,731	7,690
Loans Receivable	-	-	365,199	-	365,199
Depreciable, Net	1,729,241	-	-	7,130	1,736,371
Total Assets	\$ 2,118,719	\$ 291,211	\$ 469,403	\$ 87,837	\$ 2,967,170
DEFERRED OUTFLOWS OF RESOURCES					
Derived from Pensions and OPEB	\$ -	\$ 86,740	\$ 34,459	\$ -	\$ 121,199
LIABILITIES					
City Loans Payable	-	-	290,428	-	290,428
Payroll Liabilities	2,097	-	1,645	-	3,742
Interest Payable	121	-	336	-	457
Long-Term Liabilities					
Due Within One Year					
Long-Term Debt	36,000	-	10,534	-	46,534
Compensated Absences	-	2,714	427	473	3,614
Due Outside One Year					
Long-Term Debt	-	-	7,138	-	7,138
Compensated Absences	-	24,423	3,847	4,251	32,521
Net Pension & OPEB Liability	-	208,181	82,617	-	290,798
Total Liabilities	\$ 38,218	\$ 235,318	\$ 396,972	\$ 4,724	\$ 675,232
DEFERRED INFLOWS OF RESOURCES:					
Derived from Pensions and OPEB	\$ -	\$ 16,380	\$ 5,638	\$ -	\$ 22,018
NET POSITION					
Net Investment in Capital Assets	\$ 1,729,241	\$ -	\$ -	\$ -	\$ 1,729,241
Restricted					
Health & Welfare	-	126,253	-	-	126,253
Conservation of Natural Resources	351,260	-	-	-	351,260
Economic Development	-	-	101,252	-	101,252
Culture & Recreation	-	-	-	83,113	83,113
Total Net Position	\$ 2,080,501	\$ 126,253	\$ 101,252	\$ 83,113	\$ 2,391,119

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Statement of Activities – Discretely Presented Component Units For the Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Water Resource	Health District	Job Development Authority	County Library	Total
Component Units								
Governmental Activities								
Water Resource District	\$ 549,846	\$ 282,567	\$ 50,592	\$ (216,687)	\$ -	\$ -	\$ -	\$ (216,687)
Health District	462,660	93,594	313,413	-	(55,653)	-	-	(55,653)
Job Development Authority	351,261	5,731	60,000	-	-	(285,530)	-	(285,530)
County Library	131,792	1,691	10,473	-	-	-	(119,628)	(119,628)
Total Component Units	\$ 1,495,559	\$ 383,583	\$ 434,478	\$ (216,687)	\$ (55,653)	\$ (285,530)	\$ (119,628)	\$ (677,498)
General Revenues								
Property Taxes				\$ 107,794	\$ 57,907	\$ 189,026	\$ 101,199	\$ 455,926
Sales Tax				-	-	24,928	-	24,928
Unrestricted Investment & Interest Earnings				4,830	999	-	479	6,308
Miscellaneous revenue				6,139	-	33,791	2,323	42,253
Total General Revenues				\$ 118,763	\$ 58,906	\$ 247,745	\$ 104,001	\$ 529,415
Change in Net Position				\$ (97,924)	\$ 3,253	\$ (37,785)	\$ (15,627)	\$ (148,083)
Net Position - January 1				\$ 2,178,425	\$ 123,000	\$ 146,191	\$ 98,740	\$ 2,546,356
Prior Period Adjustments				\$ -	\$ -	\$ (7,154)	\$ -	\$ (7,154)
Net Assets - January 1, as restated				\$ 2,178,425	\$ 123,000	\$ 139,037	\$ 98,740	\$ 2,539,202
Net Position - December 31				\$ 2,080,501	\$ 126,253	\$ 101,252	\$ 83,113	\$ 2,391,119

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Statement of Fiduciary Assets and Liabilities – Agency Funds
December 31, 2018

ASSETS

Cash and Cash Equivalents \$ 2,619,227

LIABILITIES

Due to Other Governments \$ 2,619,227

The notes to the financial statements are an integral part of this statement.

CAVALIER COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cavalier County (hereafter referred to as “County”), North Dakota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the County. The County has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the County such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the County.

Based on these criteria, the component units discussed below are included within the County's reporting entity because of the significance of their operational or financial relationship with the County.

Component Units

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity of the government-wide statements as aggregate discretely presented component units.

Aggregate Discretely Presented Component Units

The component unit column in the government wide basic financial statements includes the financial data of the County's four aggregate discretely presented component units. These component units are reported in one column in the government wide statements with the primary government to emphasize that they are legally separate from the County. Additionally, separate combining statements (statement of net position and statement of activities) for the aggregate discretely presented component units are presented.

Cavalier County Water Resource District (“Water Resource District”)- The County's governing board appoints the members of the Water Resource District Board. The County has the authority to approve or modify the Water Resource District operational and capital budgets. The County also must approve the tax levy established by the Water Resource District.

Cavalier County District Health District (“Health District”)- The Health District's governing board is appointed by the County's governing board. The County's governing body has the authority to disapprove, amend or modify the Health District's budget.

Cavalier County Job Development Authority (“Job Development Authority”) - The County's governing board approves the Job Development Authority's tax levies. The County's governing body has the authority to disapprove, amend or modify the job development authority's budget. The County commissioners approve all Job Development Authority board member appointments.

Cavalier County Library (“Library”)- The County's governing board approves the Library's tax levies. The County's governing body has the authority to disapprove, amend or modify the Library's budget. The County commissioners approve all Library board member appointments.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the primary government, the County, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category, *governmental* and *fiduciary*, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The County reports the following major governmental funds:

General Fund - This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Additionally, the County reports the following fund type:

Agency Funds. These funds account for assets by the County in a custodial capacity as an agent on behalf of others. The County's agency funds are used to account for property taxes collected on behalf of other governments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar item are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits, money market accounts, and certificates of deposit with a maturity of 3 months or less. Investments consist of certificates of deposit with a maturity of more than 3 months.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized.

Major outlays for capital assets and improvements will be capitalized as projects are constructed. Capital assets per policy will be depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings/County Shops	50 - 100
Building Improvements	25
Equipment	5 - 20
Vehicles	5
Infrastructure	25

Compensated Absences

Vacation leave is earned at the rate of one to two days per month by County employees depending on years of service. Sick leave benefits are earned by full-time employees at the rate of one day per month regardless of the years of service. Unused sick leave benefits will be allowed to accumulate to an unlimited amount. Up to 240 hours of vacation may be carried over at year-end. Employees are entitled to be paid for 10% of sick leave upon termination of employment and all vacation leave accrued to the date of termination. A liability for the vested or accumulated vacation and sick leave is reported in government-wide statement of net position.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Fund Balances

Fund Balance Spending Policy. It is the policy of the County to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

Net Position

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: PRIOR PERIOD ADJUSTMENTS

Discretely Presented Component Units

Cavalier County Job Development Authority

A prior period adjustment was necessary for the Cavalier County Job Development Authority for the beginning balance of loans receivable that had been written off in a prior year.

Job Development Authority	Amounts
Beginning Net Position, as previously reported	\$ 146,191
Adjustments to restate the January 1, 2018 Net Position:	
MAB Fund Balance Adjustment	(7,154)
Net Position January 1, as restated	\$ 139,037

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 3: DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the County would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The County does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

Primary Government

At year ended December 31, 2018, the County's carrying amount of deposits totaled \$10,154,330, and the bank balances totaled \$10,547,703. Of the bank balances, \$500,000 was covered by Federal Depository Insurance and \$24,937 was held at the Bank of North Dakota (not requiring collateralization). The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Discretely Presented Component Units

The Water Resource District's carrying amount of deposits totaled \$424,335 and the bank balances totaled \$455,437. Of the bank balances, \$330,689 was covered by Federal Depository Insurance and the remainder was collateralized with securities held by the pledging financial institution's agent in the government's name.

The Health District's The carrying value of deposits totaled \$290,330 and the bank balances totaled \$315,027, all of was covered by Federal Depository Insurance.

The Job Development Authority's carrying amount of deposits totaled \$101,099 and the bank balances totaled \$146,663, all of which was covered by Federal Depository Insurance.

The Library's carrying amount of deposits totaled \$79,391 and bank balances totaled \$88,458, all of which was covered by Federal Depository Insurance.

NOTE 4: PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 5: LOANS RECEIVABLE

Primary Government

The County’s loans receivable consists of amounts due from various cities and townships within the County for the Vanguard Reappraisal project. The County is paying for the project initially by taking out a loan. The County will be paid back by the entities involved over a five year period.

Discretely Presented Component Units

JDA city loans receivable consist of amounts due from various businesses within the County on behalf of the city for economic development loans that the Cavalier County Job Development Authority (JDA) administers on behalf of the city, as well as loans issued to various businesses by the JDA from their portion of the tax levy.

NOTE 6: CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the year ended December 31, 2018:

Primary Government	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000
Construction in Progress	47,075	505,351	-	(527,426)	25,000
Total Capital Assets, Not Being Depreciated	\$ 77,075	\$ 505,351	\$ -	\$ (527,426)	\$ 55,000
Capital Assets Being Depreciated					
Buildings	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Building Improvements	745,556	64,725	-	-	810,281
Vehicles & Equipment	3,345,336	155,086	74,231	-	3,426,191
Infrastructure	13,508,723	-	-	527,426	14,036,149
Total Capital Assets, Being Depreciated	\$ 18,099,615	\$ 219,811	\$ 74,231	\$ 527,426	\$ 18,772,621
Less Accumulated Depreciation					
Buildings	\$ 305,000	\$ 5,000	\$ -	\$ -	\$ 310,000
Building Improvements	141,300	32,411	-	-	173,711
Vehicles & Equipment	1,499,048	251,112	55,922	-	1,694,238
Infrastructure	2,331,373	561,446	-	-	2,892,819
Total Accumulated Depreciation	\$ 4,276,721	\$ 849,969	\$ 55,922	\$ -	\$ 5,070,768
Total Capital Assets Being Depreciated, Net	\$ 13,822,894	\$ (630,158)	\$ 18,309	\$ 527,426	\$ 13,701,853
Primary Government Capital Assets, Net	\$ 13,899,969	\$ (124,807)	\$ 18,309	\$ -	\$ 13,756,853

Depreciation expense was charged to functions of the County as follows:

Primary Government	Amounts
General Government	\$ 46,806
Public Safety	32,494
Highways	751,985
Health and Welfare	11,340
Conservation of Natural Resources	7,344
Total Depreciation Expense - Govt. Activities	\$ 849,969

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Discretely Presented Component Units

The following is a summary of changes in capital assets for the year ended December 31, 2018 for the Water Resource District and Library:

Water Resource District	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Being Depreciated					
Vehicles & Equipment	\$ 74,812	\$ 13,224	\$ 12,924	\$ -	\$ 75,112
Infrastructure	3,142,147	-	-	-	3,142,147
Total Capital Assets, Being Depreciated	\$ 3,216,959	\$ 13,224	\$ 12,924	\$ -	\$ 3,217,259
Less Accumulated Depreciation					
Vehicles & Equipment	\$ 55,307	\$ 6,554	\$ 7,754	\$ -	\$ 54,107
Infrastructure	1,308,226	125,686	-	-	1,433,911
Total Accumulated Depreciation	\$ 1,363,533	\$ 132,240	\$ 7,754	\$ -	\$ 1,488,018
Total Capital Assets Being Depreciated, Net	\$ 1,853,426	\$ (119,016)	\$ 5,170	\$ -	\$ 1,729,241
Water Resource District Capital Assets, Net	\$ 1,853,426	\$ (119,016)	\$ 5,170	\$ -	\$ 1,729,241

Library	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Being Depreciated					
Vehicles & Equipment	\$ 11,884	\$ -	\$ -	\$ -	\$ 11,884
Less Accumulated Depreciation					
Vehicles & Equipment	\$ 3,565	\$ 1,189	\$ -	\$ -	\$ 4,754
County Library Capital Assets, Net	\$ 8,319	\$ (1,189)	\$ -	\$ -	\$ 7,130

Depreciation expense was charged to the conservation of natural resources function and culture and recreation for the Water Resource District and Library, respectively.

NOTE 7: LONG-TERM LIABILITIES

Primary Government

During the year ended December 31, 2018, the following changes occurred in governmental activities long-term liabilities:

Primary Government	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Loans Payable	\$ 1,321,187	\$ -	\$ 497,331	\$ 823,856	\$ 214,917
Compensated Absences *	\$ 281,768	\$ 23,786	\$ -	\$ 305,554	\$ 30,555
Net Pension and OPEB Liability *	3,320,762	124,813	-	3,445,575	-
Total Primary Government	\$ 4,923,717	\$ 148,599	\$ 497,331	\$ 4,574,985	\$ 245,472

* The change to compensated absences and net pension and OPEB liability are the net changes for the year.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Debt service requirements on long-term debt is as follows:

Primary Government		
Year Ending Dec 31	Loans Payable	
	Principal	Interest
2019	\$ 214,917	\$ 18,571
2020	219,649	13,829
2021	169,558	8,908
2022	114,692	5,069
2023	62,106	-
2024-2028	42,934	-
Total	\$ 823,856	\$ 46,377

Discretely Presented Component Unit

Water Resource District

During the year ended December 31, 2018, the following changes occurred in governmental long-term liabilities of the Water Resource District:

Water Resource District	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt Loans Payable	\$ 36,000	\$ -	\$ -	\$ 36,000	\$ 36,000

Debt service requirements on long-term debt is as follows:

Water Resource District		
Year Ending Dec 31	Loans Payable	
	Principal	Interest
2019	\$ 36,000	\$ 463

Public Health District

During the year ended December 31, 2018, the following changes occurred in governmental long-term liabilities of the Health District:

Health District	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Compensated Absences *	\$ 26,230	\$ 907	\$ -	\$ 27,137	\$ 2,714
Net Pension and OPEB Liability *	193,554	14,627	-	208,181	-
Total Health District	\$ 219,784	\$ 15,534	\$ -	\$ 235,318	\$ 2,714

* The change to compensated absences and net pension and OPEB liability are the net changes for the year.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Job Development Authority

During the year ended December 31, 2018, the following changes occurred in governmental long-term liabilities of the Job Development Authority:

Job Development Authority	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Loans Payable	\$ 27,736	\$ -	\$ 10,064	\$ 17,672	\$ 10,534
Compensated Absences *	\$ 3,178	\$ 1,096	\$ -	\$ 4,274	\$ 427
Net Pension and OPEB Liability *	77,000	5,617	-	82,617	-
Total Job Development Authority	\$ 107,914	\$ 6,713	\$ 10,064	\$ 104,563	\$ 10,961

* The change to compensated absences and net pension and OPEB liability are the net changes for the year.

Debt service requirements on long-term debt is as follows:

Job Development Authority		
Year Ending Dec 31	Loans Payable	
	Principal	Interest
2019	\$ 10,534	\$ 806
2020	7,138	327
2021	-	-
Total	\$ 17,672	\$ 1,133

Library

During the year ended December 31, 2018, the following changes occurred in governmental long-term liabilities of the Library:

Library	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Compensated Absences *	\$ 2,976	\$ 1,748	\$ -	\$ 4,724	\$ 473

* The change to compensated absences and net pension and OPEB liability are the net changes for the year.

NOTE 8: OPERATING LEASES

The County is engaged in various operating leases Total lease payments made during 2018 totaled \$13,222. Future lease payments are as follows:

Year Ending Dec 31	Operating Leases	
	County Copiers	JDA Copier
2019	\$ 8,220	\$ 1,026
2020	8,220	-
2021	7,954	-
2022	5,772	-
2023	1,008	-
Total	\$ 31,174	\$ 1,026

NOTE 9: PENSION PLAN

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contributions rates are 7.12% of covered compensation.

The member’s account balance includes the vested employer contributions equal to the member’s contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the following net pension liabilities were reported:

	Net Pension Liability
County	\$ 3,300,946
Health District	199,442
Job Development Authority	79,149

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurements	Pension Expense
County	0.195599%	-0.001834%	\$ 542,669
Health District	0.011818%	0.000311%	31,718
Job Development Authority	0.004690%	0.000112%	13,034

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 8,738	\$ 112,305
Changes in Assumptions	1,191,573	47,115
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	16,059
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	43,957	55,638
Contributions - Employer	74,545	-
Total Primary Government	\$ 1,318,813	\$ 231,117

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Health District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 528	\$ 6,785
Changes in Assumptions	71,994	2,847
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	970
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	3,702	5,391
Contributions - Employer	8,116	-
Total Health District	\$ 84,340	\$ 15,993

Job Development Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 210	\$ 2,693
Changes in Assumptions	28,571	1,130
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	385
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,517	1,275
Contributions - Employer	3,216	-
Total Job Development Authority	\$ 33,514	\$ 5,483

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019:

County	\$ 74,545
Health District	8,116
Job Development Authority	3,216

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	County	Health District	Job Development Authority
2018	\$ 337,885	\$ 19,344	\$ 8,123
2019	293,740	16,701	7,065
2020	236,497	14,477	5,816
2021	137,663	8,984	3,532
2022	7,366	725	279

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates are based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long -Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

CAVALIER COUNTY

Notes to the Financial Statements – Continued

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the County’s and Health District’s proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the County’s and Health District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate.

Proportionate Share of the Net Pension Liability	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
County	\$ 4,485,373	\$ 3,300,946	\$ 2,312,581
Health District	271,004	199,442	139,725
Job Development Authority	107,549	79,149	55,450

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued NDPERS financial report.

NOTE 10: OPEB PLAN

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member’s years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee

CAVALIER COUNTY

Notes to the Financial Statements – Continued

receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the following net OPEB liabilities were reported:

	Net OPEB Liability
County	\$ 144,629
Health District	8,739
Job Development Authority	3,468

The net OPEB liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 Measurements	OPEB Expense
County	0.183640%	-0.002661%	\$ 17,606
Health District	0.011096%	0.000238%	1,097
Job Development Authority	0.004404%	0.000084%	435

At December 31, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 4,327	\$ 2,988
Changes of Assumptions	11,867	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	3,111
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	1,660
Contributions - Employer	11,936	-
Total Primary Government	\$ 28,130	\$ 7,759

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Health District	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 260	\$ 181
Changes of Assumptions	717	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	188
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	123	18
Contributions - Employer	1,300	-
Total Health District	\$ 2,400	\$ 387

Job Development Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 104	\$ 72
Changes of Assumptions	285	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	75
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	41	8
Contributions - Employer	515	-
Total Job Development Authority	\$ 945	\$ 155

The following amounts were reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019:

County	\$ 11,936
Health District	1,300
Job Development Authority	515

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year	County	Health District	Job Development Authority
2018	\$ 944	\$ 88	\$ 35
2019	944	88	35
2020	944	88	35
2021	2,317	171	68
2022	2,065	158	62
2023	1,086	99	37
Thereafter	135	21	3

Actuarial assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, net of investment expenses
Cost-of-Living Adjustments	None

CAVALIER COUNTY

Notes to the Financial Statements – Continued

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the County's and Health District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Proportionate Share of the Net OPEB Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
County	\$ 182,990	\$ 144,629	\$ 111,743
Health District	11,057	8,739	6,752
Job Development Authority	4,388	3,468	2,680

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 11: RISK MANAGEMENT

Cavalier County is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The County pays an annual premium to NDRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$2,343,736 for public assets (mobile equipment and portable property) for the County, and \$79,500 for the water resource district.

The County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The Water Resource District and Health District have \$240,000 and \$132,000, respectively, of blanket fidelity bond coverage.

The County participates in the worker's compensation with the Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 12: JOINT VENTURES

Under authorization of state statutes, the Cavalier County Water Resource District joined the water resource districts of Rolette County, Nelson County, Pierce County, Ramsey County, Benson County, Towner County and Walsh County to establish and operate a joint exercise of powers agreement for water management districts located within the Devils Lake basin. The joint agreement created Devils Lake Basin Joint Water Resource Board. The agreement was established for the mutual advantage of the governments. Each government appoints one member of the directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined due to the lack of provisions being made for this in the joint power's agreement.

Summary financial information (the latest information available) as of and for the year ended December 31, 2007 is as follows:

	Devils Lake Basin Joint WRD
Total Assets	\$ 828,235
Total Liabilities	(20,051)
Total Net Position	\$ 848,286
Total Revenues	\$ 848,156
Total Expenses	918,404
Change in Net Position	\$ (70,248)

Additional financial information may be obtained from the Devils Lake Basin Joint Water Resource District, 524, 4th Ave. #27, Devils Lake, ND 58301.

NOTE 13: CONDUIT DEBT

From time to time, the County has issued Community Development Block Grant Loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans, ownership of the acquired facilities transfers to the private-sector entity served by the loan issuance. Neither the County, State, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

As of December 31, 2018, there was one series of Community Development Block Grant Loans outstanding, with an aggregate principal amount payable of \$175,000.

CAVALIER COUNTY

Budgetary Comparison Schedule – General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 1,795,575	\$ 1,795,575	\$ 1,810,579	\$ 15,004
Intergovernmental	510,013	510,013	629,479	119,466
Charges for Services	334,160	334,160	366,628	32,468
Licenses, Permits and Fees	980	980	1,053	73
Interest Income	34,000	34,000	45,864	11,864
Miscellaneous	30,000	30,000	96,777	66,777
Total Revenues	\$ 2,704,728	\$ 2,704,728	\$ 2,950,380	\$ 245,652
EXPENDITURES				
Current				
General Government	\$ 1,849,839	\$ 1,889,386	\$ 1,750,179	\$ 139,207
Public Safety	1,085,905	1,085,905	1,149,672	(63,767)
Health and Welfare	59,256	59,256	59,256	-
Economic development	25,000	25,000	-	25,000
Other	-	-	24,950	(24,950)
Debt Service				
Principal	-	-	304,145	(304,145)
Interest & Service Charges	-	-	18,230	(18,230)
Total Expenditures	\$ 3,020,000	\$ 3,059,547	\$ 3,306,432	\$ (246,885)
Excess (Deficiency) of Revenues Over Expenditures	\$ (315,272)	\$ (354,819)	\$ (356,052)	\$ (1,233)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 861,834	\$ 861,834
Transfers out	-	-	(108,140)	(108,140)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ 753,694	\$ 753,694
Net Change in Fund Balances	\$ (315,272)	\$ (354,819)	\$ 397,642	\$ 752,461
Fund Balance - January 1	\$ 3,198,617	\$ 3,198,617	\$ 3,198,617	\$ -
Fund Balance - December 31	\$ 2,883,345	\$ 2,843,798	\$ 3,596,259	\$ 752,461

The notes to the required supplementary information are an integral part of this statement.

CAVALIER COUNTY

Budgetary Comparison Schedule – Special Revenue Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	\$ 1,938,544	\$ 1,938,544	\$ 1,928,670	\$ (9,874)
Intergovernmental	1,545,514	1,545,514	2,773,281	1,227,767
Charges for services	382,710	382,710	727,849	345,139
Miscellaneous	15,000	15,000	81,493	66,493
Total Revenues	<u>\$ 3,881,768</u>	<u>\$ 3,881,768</u>	<u>\$ 5,511,293</u>	<u>\$ 1,629,525</u>
EXPENDITURES				
Current				
General Government	\$ -	\$ 4,290	\$ 5,158	\$ (868)
Public Safety	55,928	87,969	87,969	-
Highways & Bridges	2,852,968	3,309,764	3,113,822	195,942
Health & Welfare	934,726	946,052	938,588	7,464
Flood	-	1,081,229	1,081,229	-
Conservation of Natural Resources	334,538	386,470	378,348	8,122
Debt Service				
Principal	230,000	230,000	193,186	36,814
Interest	-	-	14,404	(14,404)
Total Expenditures	<u>\$ 4,408,160</u>	<u>\$ 6,045,774</u>	<u>\$ 5,812,704</u>	<u>\$ 233,070</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (526,392)</u>	<u>\$ (2,164,006)</u>	<u>\$ (301,411)</u>	<u>\$ 1,862,595</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 456,511	\$ 456,511
Transfers out	-	-	(1,210,205)	(1,210,205)
Total Other Financing Sources and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (753,694)</u>	<u>\$ (753,694)</u>
Net Change in Fund Balances	<u>\$ (526,392)</u>	<u>\$ (2,164,006)</u>	<u>\$ (1,055,105)</u>	<u>\$ 1,108,901</u>
Fund Balances - January 1	<u>\$ 3,585,115</u>	<u>\$ 3,585,115</u>	<u>\$ 3,585,115</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ 3,058,723</u>	<u>\$ 1,421,109</u>	<u>\$ 2,530,010</u>	<u>\$ 1,108,901</u>

The notes to the required supplementary information are an integral part of this statement.

CAVALIER COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net Pension Liability
 ND Public Employee's Retirement System
 Last 10 Fiscal Years**

COUNTY	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.195599%	\$ 3,300,946	\$ 2,009,422	164.27%	62.80%
2017	0.197433%	3,173,396	2,015,477	157.45%	61.98%
2016	0.191985%	1,871,081	1,934,759	96.71%	70.46%
2015	0.203720%	1,385,261	1,814,902	76.33%	77.15%
2014	0.195652%	1,241,845	1,648,126	75.35%	77.70%

HEALTH	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.011818%	\$ 199,442	\$ 121,410	164.27%	62.80%
2017	0.011507%	184,955	117,468	157.45%	61.98%
2016	0.011189%	109,048	112,758	96.71%	70.46%
2015	0.012405%	84,352	110,511	76.33%	77.15%
2014	0.012858%	81,612	108,312	75.35%	77.70%

JDA	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.004690%	\$ 79,149	\$ 48,186	164.26%	62.80%
2017	0.004578%	73,583	46,734	157.45%	61.98%
2016	0.004465%	43,516	45,000	96.70%	70.46%
2015	0.004849%	32,972	43,200	76.32%	77.15%
2014	0.004737%	30,067	39,900	75.36%	77.70%

CAVALIER COUNTY

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

COUNTY	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 148,003	\$ 149,496	\$ (1,493)	\$ 2,009,422	7.44%
2017	146,147	144,410	1,737	2,015,477	7.17%
2016	140,073	139,245	828	1,934,759	7.20%
2015	137,856	131,433	6,423	1,814,902	7.24%
2014	117,347	117,347	-	1,648,126	7.12%

HEALTH	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 8,942	\$ 8,644	\$ 298	\$ 121,410	7.12%
2017	8,518	8,364	154	117,468	7.12%
2016	8,164	8,680	(516)	112,758	7.70%
2015	8,394	7,868	526	110,511	7.12%
2014	7,712	7,712	-	108,312	7.12%

JDA	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 3,549	\$ 3,431	\$ 118	\$ 48,186	7.12%
2017	3,389	3,328	61	46,734	7.12%
2016	3,258	3,465	(207)	45,000	7.70%
2015	3,281	3,076	205	43,200	7.12%
2014	2,841	2,841	-	39,900	7.12%

The accompanying required supplementary information notes are an integral part of this schedule.

CAVALIER COUNTY

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer's Share of Net OPEB Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

COUNTY	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.183640%	\$ 144,629	\$ 2,009,422	7.20%	61.89%
2017	0.186301%	\$ 147,366	\$ 2,015,477	7.31%	59.78%

JDA	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.004404%	\$ 3,468	\$ 48,186	7.20%	61.89%
2017	0.004320%	\$ 3,417	\$ 46,734	7.31%	59.78%

HEALTH	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.011096%	\$ 8,739	\$ 121,410	7.20%	61.89%
2017	0.010858%	\$ 8,589	\$ 117,468	7.31%	59.78%

CAVALIER COUNTY

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
 For the Year Ended December 31, 2018

**Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years**

COUNTY	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 23,569	\$ 23,936	\$ 47,505	\$ 2,009,422	1.19%
2017	\$ 23,429	\$ (23,122)	\$ 307	\$ 2,015,477	-1.15%

JDA	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 565	\$ 549	\$ 1,114	\$ 48,186	1.14%
2017	\$ 543	\$ (533)	\$ 10	\$ 46,734	-1.14%

HEALTH	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	County's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2018	\$ 1,424	\$ 1,384	\$ 2,808	\$ 121,410	1.14%
2017	\$ 1,365	\$ (1,339)	\$ 26	\$ 117,468	-1.14%

The accompanying required supplementary information notes are an integral part of this schedule.

CAVALIER COUNTY

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- The County commission adopts an “appropriated budget” on the modified accrual basis of accounting.
- The County auditor prepares an annual budget for the general fund and each special revenue fund of the County. NDCC 11-23-02. The budget includes proposed expenditures and means of financing them.
- The County commission holds a public hearing where any taxpayer may appear and shall be heard in favor of or against any proposed disbursements or tax levies. When the hearing shall have been concluded, the board shall adopt such estimate as finally is determined upon. All taxes shall be levied in specific amounts and shall not exceed the amount specified in the published estimates. NDCC 11-23-04
- The board of County commissioners, on or before the October meeting shall determine the amount of taxes that shall be levied for County purposes and shall levy all such taxes in specific amounts. NDCC 11-23-05
- Each budget is controlled by the County auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. NDCC 57-15-31.1
- All appropriations lapse at year-end.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The board of County commissioners amended the County expenditures and transfers budget for various funds as follows:

	Original Budget	Budget Amendment	Amended Budget
Major Funds			
General	\$ 3,020,000	\$ 39,547	\$ 3,059,547
Special Revenue	4,408,160	1,637,614	6,045,774

NOTE 3: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the information will be presented for those years for which information is available.

NOTE 4: PENSION AND OPEB - CHANGES OF ASSUMPTIONS

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CAVALIER COUNTY

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

CFDA Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF JUSTICE			
Passed Through Department of Health			
16.588	Stop Violence Against Women Formula Grant	HLH4127	\$ 8,520
16.588	Stop Violence Against Women Formula Grant	HLH4128	<u>6,188</u>
Total U.S. Department of Justice			<u>\$ 14,708</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through State Department of Emergency Services			
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	DR4323	\$ 1,066,235
97.047	Pre-Disaster Mitigation	PDM2016	16,733
97.042	Emergency Management Performance Grants	EMPG2017	22,063
97.042	Emergency Management Performance Grants	EMPG2018	<u>9,372</u>
Total Emergency Management Performance Grants			<u>\$ 31,435</u>
97.067	Homeland Security Grant	HLS2016	\$ 22,467
97.067	Homeland Security Grant	HLS2017	<u>45,062</u>
Total Homeland Security Grant			<u>\$ 67,529</u>
Total U.S. Department of Homeland Security			<u>\$ 1,181,932</u>
U.S. DEPARTMENT OF COMMERCE			
Passed Through State Department of Commerce			
14.228	Community Development Block Grants	N/A	<u>\$ 14,716</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through the State Department of Health			
93.658	Foster Care_Title IV-E (Recovery)	N/A	\$ 2,256
93.659	Adoption Assistance (Recovery)	N/A	71
93.556	Promoting Safe and Stable Families	N/A	1,910
93.563	Child Support Enforcement	N/A	4
93.645	Stephanie Tubbs Jones Child Welfare Services Program	N/A	450
93.558	Temporary Assistance for Needy Families	N/A	2,353
93.596	Child Care Mandatory and Matching Funds of the Child Care and Developm	N/A	217
93.994	Maternal and Child Health Services Block Grant to the States	N/A	<u>32</u>
Total U.S. Dept. of Health and Human Services			<u>\$ 7,293</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,218,649</u></u>

CAVALIER COUNTY

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

NOTE 1: BASIS OF PRESENTATION / ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County under programs of the federal government for the year ended December 31, 2018. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position or changes in net position of the County. Expenditures represent only the federally funded portions of the program. County records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3: PASS-THROUGH GRANT NUMBER

For Federal programs marked "N/A", the County was unable to obtain a pass-through grant number.

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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**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***

Independent Auditor's Report

Board of County Commissioners
Cavalier County
Langdon, 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 the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Cavalier County's basic financial statements, and have issued our report thereon dated October 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cavalier County'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 Cavalier County's internal control. Accordingly, we do not express an opinion on the effectiveness of Cavalier County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying *schedule of audit findings and questioned costs* as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cavalier County'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*.

CAVALIER COUNTY

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* - Continued

Cavalier County’s Response to Findings

Cavalier County’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings and questioned costs*. Cavalier County’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
October 4, 2019



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAMS; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

Board of County Commissioners
Cavalier County
Langdon, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Cavalier County's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Cavalier County's major federal program for the year ended December 31, 2018. Cavalier County'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 compliance for Cavalier County'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 types of 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 Cavalier County'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 Cavalier County's compliance.

Opinion on Each Major Federal Program

In our opinion, Cavalier County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

CAVALIER COUNTY

Report on Compliance for Each Major Federal Programs; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards – Continued

Report on Internal Control Over Compliance

Management of Cavalier County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cavalier County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of finding and questioned costs as items 2018-006 that we consider to be significant deficiencies.

Cavalier County's response to the internal control over compliance findings identified in our audit is described in the accompanying summary of auditor's results, findings, and question costs and management's corrective action plan. Cavalier County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
October 4, 2019

CAVALIER COUNTY

Schedule of Audit Findings and Questioned Costs
For the Year Ended December 31, 2018

Section I - Financial Statement Findings

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Cavalier County does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP). Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

Criteria

Management of Cavalier County is responsible for establishing proper internal control over the preparation of Cavalier County's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management may not be fully aware how to prepare basic financial statements that comply with GAAP and has chosen to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement to the Cavalier County's financial statements.

Recommendation

We recommend Cavalier County design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

Cavalier County's Response

Agree. Cavalier County Auditor's Office has been filling in large portions of fund activity in preparation for the State Audit. We have discussed additional financial reporting with the State Auditors for future audits. The Auditor's Office has worked with the State Auditor's Office in the past on the various additional reporting required prior to the actual audit and will continue to work on the additional requirements being proposed.

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

Cavalier County is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Cause

Management is not fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

CAVALIER COUNTY

Schedule of Audit Findings and Questioned Costs – Continued

Effect

Inadequate internal controls over recording of transactions affects Cavalier County’s ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation

We recommend Cavalier County design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

Cavalier County’s Response

Agree. General Ledger adjustments are being reviewed and signed off by the Commission Chair, with an explanation of the reason for any manual adjustments. This change was implemented in 2019 when the State Auditors made the recommendation. All adjustments and approval of the adjustments are documented and kept with the financials for the year.

2018-003 – LACK OF SEGREGATION OF DUTIES - COMPONENT UNITS

Condition

The discretely presented component units (Cavalier County Water Resource District, Cavalier County Jobs Development Authority, Cavalier County Library, and Cavalier County Public Health Unit) each have limited staff members responsible for the primary accounting functions. A lack of segregation of duties exists as limited staff are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, and perform bank reconciliations.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the component units.

Cause

Management has chosen to allocate its economic resources to other functions of the component units.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the component unit’s financial condition, whether due to error or fraud.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Cavalier County’s Response

Agree. The Component Units agree and will segregate duties as it becomes feasible.

CAVALIER COUNTY

Schedule of Audit Findings and Questioned Costs – Continued

2018-004 – IMPROPER BANK RECONCILIATION – WATER RESOURCE DISTRICT

Condition

The Cavalier County Water Resource District's bank reconciliation did not balance to the general ledger at December 31, 2018 for the checking account at Farmers & Merchants State Bank. A line of credit was issued and was improperly recorded as an outstanding deposit leading to the reconciliation being off by \$24,000.

Criteria

Management of Cavalier County Water Resource District is responsible for establishing proper internal control over the preparation of the bank reconciliation process.

Cause

Internal controls surrounding the bank reconciliation process are not working properly.

Effect

The absence of proper controls over the bank reconciliation process increases the risk of financial misstatement and increases the risk of fraud. The bank reconciliations will remain out of balance until this error is fixed.

Recommendation

We recommend the Cavalier County Water Resource District fix the bank reconciliation error, implement controls over the bank reconciliation process, and obtain accounting training.

Cavalier County Water Resource District's Response

Agree. Cavalier County Water Resource District will implement controls to make sure that the bank reconciliation are working properly.

2018-005 – IMPROPER ACCOUNTING REQUIRING A CASH ADJUSTMENT – WATER RESOURCE DISTRICT

Condition

The Cavalier County Water Resource District's improperly recorded transactions relating to an approved \$60,000 line of credit which resulted in an adjusting entry to cash needing to be made in the amount of \$36,000. During 2018, the Cavalier County Water Resource District was approved for a \$60,000 line of credit. At the time of the line of credit issuance, Cavalier County Water Resource District recorded a cash deposit of \$36,000 and a line of credit loan payable of \$36,000. Later when the funds were transferred from the line of credit account to the main checking account, the Water Resource District again recorded a cash deposit of \$36,000 and miscellaneous revenue of \$36,000. This is improper GAAP accounting as the original \$36,000 transactions should not have occurred since none of the line of credit had been used.

Criteria

Management of Cavalier County Water Resource District is responsible for establishing proper internal control over the process of recording transactions.

Cause

Internal controls surrounding the process of recording the line of credit transactions are not working properly.

CAVALIER COUNTY

Schedule of Audit Findings and Questioned Costs – Continued

Effect

The absence of proper controls over the process of recording transactions increases the risk of financial misstatement and increases the risk of fraud. The cash balance will remain incorrect until the transaction is fixed in the general ledger.

Recommendation

We recommend the Cavalier County Water Resource District fix the cash error, implement controls over the process of recording transactions, and obtain accounting training.

Cavalier County Water Resource District’s Response

Agree. Cavalier County Water Resource District will fix the issue and will implement controls to make sure that this does not happen again.

Section II - Federal Award Findings and Questioned Costs

2018-006 – LACK OF CONTROLS SURROUNDING PERIOD OF PERFORMANCE FOR CFDA 97.036

Condition

Cavalier County lacks controls surrounding the timely completion of project extensions for CFDA 97.036.

Criteria

Uniform Guidance requires internal controls to be in place surrounding the period of performance compliance requirement

Cause

Cavalier County over relies on the Department of Emergency Services to notify it when an extension needs to be filed.

Effect

Cavalier County could lose future federal funding or it could have to pay back federal funds for current projects if an extension deadline was missed.

Recommendation

We recommend Cavalier County implement controls, such as setting an email reminder, to notify the appropriate officials as to when an extension needs to be filed for a disaster recovery project.

Views of Responsible Officials/Planned Corrective Actions

The client agrees with the recommendation. See management’s corrective action plan on page 50 for further information.

CAVALIER COUNTY, NORTH DAKOTA

Office of Auditor

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Commissioners

David Zeis
Nick Moser
Stanley Dick
Greg Goodman
Austin Lafrenz

Lisa Gellner – Auditor
Monica Porterfield – Deputy Auditor

September 27, 2019

2018-006 - Recommendation

Internal controls for timely completion of project extensions for CFDA 97.036 (FEMA)

Corrective Plan:

The Road Supervisor has implemented a calendar reminder for FEMA project extensions. As a backup reminder, the County Auditor has also implemented a calendar reminder for future FEMA project extensions. An email will be sent from the Auditor to the Road Supervisor for confirmation that the extension has been requested. Documentation of these reminders/emails will be kept for future audits.



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GOVERNANCE COMMUNICATION

Board of County Commissioners
Cavalier County
Langdon, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, North Dakota, for the year ended December 31, 2018 which collectively comprise Cavalier County's basic financial statements, and have issued our report thereon dated October 4, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated July 3, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Cavalier County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Cavalier County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cavalier County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

CAVALIER COUNTY

Governance Communication – Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

PRIMARY GOVERNMENT			
Audit Adjustments			
Intergovernmental Receivable	\$	230,940	
Revenue			\$ 230,940
Revenue		552,951	
Unearned Revenue			444,377
Loan Receivable Collections			108,574
Expenditures		217,056	
Loan Financing			217,056
WATER RESOURCE DISTRICT			
Audit Adjustments			
Expenditures	\$	4,518	
Loan Adjustment			\$ 4,518
Fund Balance		36,000	
Cash Adjustment			36,000

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 4, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Cavalier County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following presents our informal recommendation:

FRAUD RISK ASSESSMENT

Cavalier County does not currently prepare a fraud risk assessment of the entire entity. If the County does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the County’s goals in reporting, reliance, and accountability.

We recommend Cavalier County prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

This information is intended solely for the use of the Board of County Commissioners and management of Cavalier County and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Cavalier County for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Cavalier County.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
October 4, 2019

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