

**CITY OF CAVALIER
CAVALIER, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	Page
ROSTER OF CITY OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	12
Statement of Activities	13
FUND FINANCIAL STATEMENTS:	
Balance Sheet - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to Net Position of Governmental Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule - General Fund	52
Note to the Budgetary Comparison Schedule	53
Schedule of Employer's Share of Net Pension Liability	54
Schedule of Employer Contributions	55
Schedule of City's Share of the OPEB Liability	56

Schedule of City's Contributions to OPEB Plan	57
Note to the Required Supplementary Information	58
SUPPLEMENTARY INFORMATION:	
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	59
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	60
Combining Balance Sheet - Nonmajor Special Revenue Funds	61
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Special Revenue Funds	63
Combining Balance Sheet - Nonmajor Debt Service Funds	65
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Debt Service Funds	66
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
Schedule of Findings and Responses	67
	69

CITY OF CAVALIER
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2018

<u>Names</u>	<u>Office</u>
Lacey Hinkle	Mayor
Craig Vaughn	Council
Lee Menzies	Council
Mike Carpenter	Council
Tom Beard	Council
Al Berry	Council
Kelly Cluchie	Council
Katie Werner	City Auditor
Barry Walton	Operations Manager

INDEPENDENT AUDITOR'S REPORT

Mayor and Aldermen of the
City Council
City of Cavalier
Cavalier, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of December 31, 2018, and the respective changes in the 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.

Emphasis of Matter

As described in Note 10 to the financial statements, the City has retroactively restated the previous reported net position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cavalier, North Dakota's basic financial statements. The roster of city officials and combining non major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the combining non major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019 on our consideration of the City of Cavalier, North Dakota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Cavalier's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cavalier's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

July 2, 2019

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

As management of the City of Cavalier, North Dakota, we are pleased to offer readers of the City of Cavalier, North Dakota financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider it in conjunction with the additional information presented in the accompanying letter of transmittal, the basic financial statements, the fund financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Change in Net Position: Governmental assets and deferred outflows exceeded liabilities and deferred inflows (net position) by \$8,219,622 at the close of the most recent fiscal year. Of this amount, \$976,745 (unrestricted net position) may be used to meet the government's ongoing obligations. The total net position of governmental activities of the City of Cavalier increased by \$307,740 as a result of the most recently completed fiscal year's operations. Business-type assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,214,886 at the close of the most recent fiscal year. Net position of the business-type activities increased by \$259,788 as a result of the most recently completed fiscal year's operations.

Total revenues from all sources were \$1,628,300 for governmental activities. Revenues from property taxes were \$154,118 in the current fiscal year compared to \$250,391 in the prior year. Sales tax revenues totaled \$466,059 in the current fiscal year; a 25.63% increase from the prior year. Total expenses were \$1,699,777.

- Total revenues from all sources were \$2,341,424 for business-type activities, with total expenses of \$1,702,419.

USING THIS ANNUAL REPORT

This annual report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Cavalier's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of the statement of net position and the statement of activities.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

The Statement of Net Position presents information on all of the City's assets, deferred inflows/outflows and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information on how the City's net position changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected sales tax, and earned but unused vacation leave). Both the Statement of Net Position and the Statement of Activities present information as follows:

- Governmental activities – this includes most of the City's basic services that are primarily supported by property and sales taxes, interest income, user fees and intergovernmental revenues.
- Business-type activities – this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cavalier, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds can be divided into two categories – governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government operations and the basic services it provides and are reported on the modified accrual basis of accounting which focuses on available expendable resources. This allows the reader to evaluate the City's short-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between the governmental funds and the government-wide financial statements.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Enterprise funds are used to report activities that charge for services it provides to outside customers. The Enterprise funds are presented as business-type activities in the government-wide statements. The City of Cavalier uses enterprise funds to account for its Water, Sewer, Sanitation and Electric operations, all of which are reported as major funds. Proprietary fund statements provide the same type of information as the government-wide statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-51 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following two tables present condensed information on the City's Net Position and Changes in Net Position for the fiscal year ended December 31, 2018. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City of Cavalier's net position includes its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Cavalier's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 – Statement of Net Position

	Governmental Activities		Business-Type Activities	
	<u>12/31/18</u>	<u>12/31/17</u> (Restated)	<u>12/31/18</u>	<u>12/31/17</u>
ASSETS				
Current assets	\$ 3,495,493	\$ 3,567,308	\$ 3,044,130	\$ 2,626,127
Capital assets (net of accumulated depreciation)	6,776,816	5,858,554	2,833,919	2,957,411
Other assets	1,961,069	2,129,320	-	-
Total assets	<u>12,233,378</u>	<u>11,555,182</u>	<u>5,878,049</u>	<u>5,583,538</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>207,404</u>	 <u>223,833</u>	 <u>181,553</u>	 <u>161,018</u>
 LIABILITIES				
Current liabilities	344,047	342,369	103,597	92,076
Long-term liabilities	3,812,775	3,435,081	685,642	632,482
Total liabilities	<u>4,156,822</u>	<u>3,777,450</u>	<u>789,239</u>	<u>724,558</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>64,338</u>	 <u>68,327</u>	 <u>55,477</u>	 <u>50,450</u>
 NET POSITION				
Net investment in capital assets	3,193,271	2,596,663	2,573,919	2,672,411
Restricted	4,049,606	4,217,043	-	-
Unrestricted (deficit)	976,745	1,119,532	2,640,967	2,297,137
Total net position	<u>\$ 8,219,622</u>	<u>\$ 7,933,238</u>	<u>\$ 5,214,886</u>	<u>\$ 4,969,548</u>

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

The City of Cavalier's governmental activities net position increased by \$307,740 primarily resulting from receipt of the Airport Improvement Grant and business type activities net position increased by \$259,788.

Table 2 - Statement of Activities

	Governmental Activities		Business-Type Activities	
	<u>12/31/18</u>	<u>12/31/17</u> (Restated)	<u>12/31/18</u>	<u>12/31/17</u>
REVENUES				
Program Revenues:				
Charges for services	\$ 247,809	\$ 65,940	\$ 2,317,120	\$ 2,262,398
Operating grants	-	89,666	-	-
Capital grants and contributions	473,205	962,126	-	-
Total program revenues	<u>721,014</u>	<u>1,117,732</u>	<u>2,317,120</u>	<u>2,262,398</u>
General Revenues:				
Property taxes	154,118	250,391	-	-
Sales and use taxes	466,059	370,980	-	-
Special assessments	56,392	88,920	-	-
Intergovernmental	91,958	78,844	-	-
Sale of capital assets	22,000	52,501	-	-
Other	116,759	89,586	24,304	18,375
Total general revenues	<u>907,286</u>	<u>931,222</u>	<u>24,304</u>	<u>18,375</u>
Total Revenues	<u>1,628,300</u>	<u>2,048,954</u>	<u>2,341,424</u>	<u>2,280,773</u>
EXPENSES				
Governmental:				
General government	545,693	453,820	-	-
Public safety	363,212	382,445	-	-
Highways and streets	331,755	260,121	-	-
Health and welfare	89,637	97,283	-	-
Culture and recreation	118,822	158,800	-	-
Other	157,714	110,576	-	-
Interest	90,094	91,987	-	-
Fiscal charges	2,850	2,875	-	-
Business type activities operating expenses:				
Water	-	-	315,955	245,273
Sewer	-	-	115,610	137,247
Sanitation	-	-	285,772	272,304
Electric	-	-	985,082	1,014,886
Total expenses	<u>1,699,777</u>	<u>1,557,907</u>	<u>1,702,419</u>	<u>1,669,710</u>
Change in net position before transfers	(71,477)	491,047	639,005	611,063
Transfers in (out)	<u>379,217</u>	<u>454,258</u>	<u>(379,217)</u>	<u>(454,258)</u>
Change in net position	307,740	945,305	259,788	156,805
Net position beginning of year	7,933,238	6,987,933	4,969,548	4,812,743
GASB 75 Adjustment - See Note 10	<u>(21,356)</u>	<u>-</u>	<u>(14,450)</u>	<u>-</u>
Net position end of year - Restated	<u>\$ 8,219,622</u>	<u>\$ 7,933,238</u>	<u>\$ 5,214,886</u>	<u>\$ 4,969,548</u>

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Budgetary Highlights

The expenditures did not exceed budgeted amounts for the year ended December 31, 2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Cavalier's capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$9,610,735 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery and equipment.

The following is a summary of capital asset activity for the year ended December 31, 2018 for the governmental activities and the business-type activities. Capital asset activity is shown in more detail in the notes to the financial statements (Note 3).

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets	\$ 6,366,984	\$ -	\$ -	\$ 6,366,984
Accumulated Depreciation	<u>(3,409,574)</u>	<u>(123,491)</u>	<u>-</u>	<u>(3,533,065)</u>
Net Capital Assets	<u>\$ 2,957,410</u>	<u>\$ (123,491)</u>	<u>\$ -</u>	<u>\$ 2,833,919</u>

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets	\$ 8,134,989	\$ 1,161,312	\$ 44,943	\$ 9,251,358
Accumulated Depreciation	<u>(2,276,430)</u>	<u>(243,055)</u>	<u>(44,943)</u>	<u>(2,474,542)</u>
Net Capital Assets	<u>\$ 5,858,559</u>	<u>\$ 918,257</u>	<u>\$ -</u>	<u>\$ 6,776,816</u>

The significant additions for 2018 in the governmental activities consisted of an Airport improvement project in the amount of \$279,511 and a Pines Street sewer extension project in the amount of \$784,796.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Long-Term Debt

At year-end, the City had total debt of \$4,746,271. Additional information on the City's debt can be found in Note 4 to the financial statements. The following is a summary of the long-term debt activity for the year ended December 31, 2018:

GOVERNMENTAL FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-17	New Issues	Retired	Other Adjustment	Balance 12-31-18	Due within One Year
Scott & Lynda Humble-contract for deed	2%	7/1/20	\$ 57,681	\$ -	\$ 18,847	\$ -	\$ 38,834	\$ 19,225
North Dakota Public Finance Authority	1.50%	9/1/48	34,895	558,759	-	-	593,654	15,961
Kinetic Leasing	2.65%	8/15/18	29,913	-	29,913	-	-	
\$2,025,000 Refunding Improvement Bonds of 2013	.5-3.75%	5/1/38	1,760,000	-	65,000	-	1,695,000	65,000
\$1,555,000 Refunding Improvement Bonds of 2014	.95-3.1%	5/1/29	1,275,000	-	95,000	-	1,180,000	95,000
\$194,000 Refunding Improvement Bonds of 2014B	1.80%	5/1/21	104,402	-	28,345	-	76,057	27,668
Net Pension Liability-Main			310,165	-	-	13,030	323,195	-
Net Pension Liability-Law Enforcement			100,131	-	-	4,008	104,139	-
Net OPEB Liability			24,613	-	-	137	24,750	-
			<u>\$ 3,696,800</u>	<u>\$ 558,759</u>	<u>\$ 237,105</u>	<u>\$ 17,175</u>	<u>\$ 4,035,629</u>	<u>\$ 222,854</u>
ENTERPRISE FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-17	New Issues	Retired	Other Adjustment	Balance 12-31-18	Due within One Year
North Dakota State Revolving Fund Lift Station Improvement District	0.50%	9/1/28	\$ 285,000	\$ -	\$ 25,000	\$ -	\$ 260,000	\$ 25,000
Net Pension Liability-Main			372,482	-	-	58,752	431,234	-
Net OPEB Liability			16,654	-	-	2,754	19,408	-
			<u>\$ 674,136</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 61,506</u>	<u>\$ 710,642</u>	<u>\$ 25,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Cavalier's elected and appointed officials considered many factors when setting next year's budget, tax rates, and fees that will be charged for the business-type activities.

As the city of Cavalier completed the year, the general fund reported a deficit of \$98,139 and the business-type activities reported a \$259,789 surplus. The primary reasons for the surpluses mirror the statement of revenues/expenditures highlighted on pages 16 and 19.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives to the citizens of Cavalier, North Dakota. If you have any questions about this report or need further information, contact the City of Cavalier, at PO Box 750, Cavalier, ND 58220-0750.

CITY OF CAVALIER
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,913,820	\$ 2,792,317	\$ 5,706,137
Investments	355,714	-	355,714
Receivables:			
Taxes	5,643	-	5,643
Special assessments	152,696	-	152,696
Accounts (net of uncollectible)	61,524	251,813	313,337
Notes receivable current portion	6,096	-	6,096
Total current assets	<u>3,495,493</u>	<u>3,044,130</u>	<u>6,539,623</u>
Capital Assets-not being depreciated			
Land	273,222	-	273,222
Capital Assets			
Buildings and improvements	525,567	5,386,616	5,912,183
Equipment and vehicles	1,409,816	980,368	2,390,184
Infrastructure	5,027,561	-	5,027,561
Construction in progress	2,015,192	-	2,015,192
Less: Accumulated depreciation	<u>(2,474,542)</u>	<u>(3,533,065)</u>	<u>(6,007,607)</u>
Net capital assets	<u>6,776,816</u>	<u>2,833,919</u>	<u>9,610,735</u>
Other Assets			
Special assessments-net of current	1,944,705	-	1,944,705
Notes receivable-net of current	16,364	-	16,364
	<u>1,961,069</u>	<u>-</u>	<u>1,961,069</u>
TOTAL ASSETS	<u>12,233,378</u>	<u>5,878,049</u>	<u>18,111,427</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan-NDPERS Main	132,351	176,595	308,946
Cost sharing defined benefit pension plan-NDPERS Law Enforcement	68,730	-	68,730
Cost sharing - OPEB	<u>6,323</u>	<u>4,958</u>	<u>11,281</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>207,404</u>	<u>181,553</u>	<u>388,957</u>
LIABILITIES			
Current Liabilities			
Accounts payable	41,810	66,051	107,861
Salaries payable	12,326	7,752	20,078
Payroll taxes payable	13,616	729	14,345
Internal balances	26,351	(26,351)	-
Interest payable	27,090	-	27,090
Deposits payable	-	30,416	30,416
Notes payable-Current portion	35,186	-	35,186
Bonds payable-Current portion	<u>187,668</u>	<u>25,000</u>	<u>212,668</u>
Total current liabilities	<u>344,047</u>	<u>103,597</u>	<u>447,644</u>
Long-term Liabilities			
Notes payable-Non current portion	597,302	-	597,302
Bonds payable-Non-current portion	2,763,389	235,000	2,998,389
Net pension liability-Main	323,195	431,234	754,429
Net pension liability-Law Enforcement	104,139	-	104,139
Net OPEB liability	<u>24,750</u>	<u>19,408</u>	<u>44,158</u>
Total long-term liabilities	<u>3,812,775</u>	<u>685,642</u>	<u>4,498,417</u>
TOTAL LIABILITIES	<u>4,156,822</u>	<u>789,239</u>	<u>4,946,061</u>
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan-NDPERS Main	40,964	54,658	95,622
Cost sharing defined benefit pension plan-NDPERS Law Enforcement	22,330	-	22,330
Cost sharing - OPEB	<u>1,044</u>	<u>819</u>	<u>1,863</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>64,338</u>	<u>55,477</u>	<u>119,815</u>
NET POSITION			
Net investment in capital assets	3,193,271	2,573,919	5,767,190
Restricted-debt service	2,671,971	-	2,671,971
Restricted-Airport Authority	187,134	-	187,134
Restricted-other	157,856	-	157,856
Restricted-Capital projects and Roads	770,140	-	770,140
Restricted-Community Development and Growth	262,505	-	262,505
Unrestricted	<u>976,745</u>	<u>2,640,967</u>	<u>3,617,712</u>
TOTAL NET POSITION	<u>\$ 8,219,622</u>	<u>\$ 5,214,886</u>	<u>\$ 13,434,508</u>

See Notes to the Financial Statements

CITY OF CAVALIER
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 and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities							
Current							
General government	\$ 545,693	\$ 14,198	\$ -	\$ -	\$ (531,495)	\$ -	\$ (531,495)
Public safety	363,212	8,030	-	-	(355,182)	-	(355,182)
Highways and streets	331,755	-	-	231,145	(100,610)	-	(100,610)
Health and welfare	89,637	-	-	-	(89,637)	-	(89,637)
Culture and recreation	118,822	42,930	-	-	(75,892)	-	(75,892)
Other	157,714	182,651	-	242,060	266,997	-	266,997
Debt service							
Interest	90,094	-	-	-	(90,094)	-	(90,094)
Fiscal charges	2,850	-	-	-	(2,850)	-	(2,850)
Total Governmental Activities	<u>1,699,777</u>	<u>247,809</u>	<u>-</u>	<u>473,205</u>	<u>(978,763)</u>	<u>-</u>	<u>(978,763)</u>
Business-Type Activities							
Water	315,955	390,399	-	-	-	74,444	74,444
Sewer	115,610	168,484	-	-	-	52,874	52,874
Sanitation	285,772	363,327	-	-	-	77,555	77,555
Electric	985,082	1,394,910	-	-	-	409,828	409,828
Total Business-Type Activities	<u>\$ 1,702,419</u>	<u>\$ 2,317,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>614,701</u>	<u>614,701</u>
General Receipts:							
Property taxes					154,118	-	154,118
Sales and use taxes					466,059	-	466,059
Special assessments-interest					56,392	-	56,392
Intergovernmental (not restricted for specific program)							
State					91,958	-	91,958
Gain from sale of fixed assets					22,000	-	22,000
Other general revenues					116,759	24,304	141,063
Transfers in (out)					379,217	(379,217)	-
Total General Receipts and Transfers					<u>1,286,503</u>	<u>(354,913)</u>	<u>931,590</u>
Changes in Net Position					<u>307,740</u>	<u>259,788</u>	<u>567,528</u>
Net Position, January 1, as originally reported					7,902,356	4,969,548	12,871,904
Prior Period Adjustment					9,526	(14,450)	(4,924)
Net Position - Beginning as restated					<u>7,911,882</u>	<u>4,955,098</u>	<u>12,866,980</u>
Net Position, December 31					<u>\$ 8,219,622</u>	<u>\$ 5,214,886</u>	<u>\$ 13,434,508</u>

See Notes to the Financial Statements

CITY OF CAVALIER
BALANCE SHEET-GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	General	Capital Projects	Special Revenue Fund Airport Authority	Debt Service Funds		Other Governmental Funds	Total
				2013 Utility Improvement	Street Improvement		
ASSETS							
Cash and cash equivalents	\$ 819,453	\$ 779,894	\$ 22,330	\$ 249,079	\$ 168,912	\$ 874,152	\$ 2,913,820
Investments	100,000	-	164,525	-	-	91,189	355,714
Receivables:							
Taxes	4,615	-	279	-	-	749	5,643
Special assessments	-	-	-	1,263,910	566,470	267,021	2,097,401
Accounts	31,578	-	-	-	-	29,946	61,524
Loans	20,000	-	-	-	-	2,460	22,460
Total Assets	\$ 975,646	\$ 779,894	\$ 187,134	\$ 1,512,989	\$ 735,382	\$ 1,265,517	\$ 5,456,562
LIABILITIES							
Accounts payable	\$ -	\$ 41,810	\$ -	\$ -	\$ -	\$ -	\$ 41,810
Accrued salaries	12,326	-	-	-	-	-	12,326
Due to other funds	-	-	-	-	-	26,351	26,351
Payroll taxes	13,616	-	-	-	-	-	13,616
Total liabilities	25,942	41,810	-	-	-	26,351	94,103
DEFERRED INFLOWS OF RESOURCES							
Unavailable property taxes receivable	4,615	-	279	-	-	749	5,643
Delinquent special assessments	-	-	-	12,788	4,614	12,373	29,775
Uncertified special assessments	-	-	-	1,251,122	561,856	254,648	2,067,626
Total deferred inflows of resources	4,615	-	279	1,263,910	566,470	267,770	2,103,044
FUND BALANCE							
Nonspendable							
Loans receivable	16,364	-	-	-	-	-	16,364
Restricted	-	738,084	186,855	249,079	168,912	635,337	1,978,267
Committed	-	-	-	-	-	336,059	336,059
Unassigned	928,725	-	-	-	-	-	928,725
Total Fund Balance	945,089	738,084	186,855	249,079	168,912	971,396	3,259,415
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 975,646	\$ 779,894	\$ 187,134	\$ 1,512,989	\$ 735,382	\$ 1,265,517	\$ 5,456,562

See Notes to the Financial Statements

CITY OF CAVALIER
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
AS OF DECEMBER 31, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance-governmental funds		\$ 3,259,415
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets		\$ 9,251,358
Accumulated Depreciation		<u>(2,474,542)</u>
Net		6,776,816
Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.		
		143,066
Property taxes, special assessments receivable and long-term receivables will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
		2,103,044
Interest payable reported in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		
		(27,090)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:		
Notes Payable		(632,488)
Bonds Payable		(2,951,057)
Net Pension Liability-Main		(323,195)
Net Pension Liability-Law Enforcement		(104,139)
Net OPEB Liability		<u>(24,750)</u>
		<u>(4,035,629)</u>
Total net position-governmental activities		<u>\$ 8,219,622</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special			Debt Service Funds		Other	Total
	General	Capital Projects	Revenue Fund Airport Authority	2013 Utility Improvement	Street Improvement	Governmental Funds	
Revenues:							
Property taxes	\$ 95,319	\$ -	\$ 25,900	\$ -	\$ -	\$ 32,899	\$ 154,118
Sales and use taxes	369,482	-	-	-	-	96,577	466,059
Special assessments	-	-	-	115,782	78,597	51,802	246,181
Licenses, permits and fees	7,368	-	-	-	-	-	7,368
Intergovernmental revenues	91,958	231,145	242,060	-	-	-	565,163
Charges for services	5,200	-	8,030	-	-	225,581	238,811
Fines and forfeits	1,630	-	-	-	-	-	1,630
Miscellaneous revenues	26,363	320	30,322	-	-	59,754	116,759
Total revenues	597,320	231,465	306,312	115,782	78,597	466,613	1,796,089
Expenditures:							
Current:							
General government	393,470	-	-	-	-	6,260	399,730
Public safety	187,708	-	-	-	-	114,598	302,306
Highways and streets	157,724	141,381	-	-	-	-	299,105
Health and welfare	89,637	-	-	-	-	-	89,637
Culture and recreation	67,213	-	-	-	-	51,609	118,822
Other	-	-	48,756	-	-	72,548	121,304
Capital outlay	12,000	784,796	279,511	-	-	85,005	1,161,312
Debt service:							
Principal retirement	29,912	-	-	65,000	95,000	47,193	237,105
Interest	813	458	-	52,230	30,843	2,778	87,122
Fiscal charges	-	-	-	425	500	1,925	2,850
Total expenditures	938,477	926,635	328,267	117,655	126,343	381,916	2,819,293
Excess of Revenues Over (Under) Expenditures	<u>(341,157)</u>	<u>(695,170)</u>	<u>(21,955)</u>	<u>(1,873)</u>	<u>(47,746)</u>	<u>84,697</u>	<u>(1,023,204)</u>
Other Financing Sources (Uses):							
Sale of fixed assets	-	-	-	-	-	22,000	22,000
Proceeds from debt issuance	-	558,759	-	-	-	-	558,759
Operating transfers in	493,018	160,000	-	8,624	40,000	50,000	751,642
Operating transfers out	(250,000)	-	-	-	-	(122,425)	(372,425)
Total other financing sources (uses)	243,018	718,759	-	8,624	40,000	(50,425)	959,976
Net Change in Fund Balances	(98,139)	23,589	(21,955)	6,751	(7,746)	34,272	(63,228)
Fund Balance (Deficit), Beginning of Year, As Originally Reported	1,043,228	714,495	208,810	242,328	176,658	906,242	3,291,761
Prior Period Adjustment - See Note 10	-	-	-	-	-	30,882	30,882
Beginning of Year, As Restated	1,043,228	714,495	208,810	242,328	176,658	937,124	3,322,643
Fund Balance (Deficit), End of Year	\$ 945,089	\$ 738,084	\$ 186,855	\$ 249,079	\$ 168,912	\$ 971,396	\$ 3,259,415

See Notes to the Financial Statements

CITY OF CAVALIER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance- total governmental funds		\$ (63,228)
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 as depreciation expense. In the current period, these amounts are:		
Capital asset purchases capitalized		\$ 1,161,310
Depreciation expense		<u>(243,055)</u>
Excess of capital outlay over depreciation expense		918,255
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.		
		237,105
The issuance of long-term liabilities provides current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the Statement of Net Position.		
		(558,759)
Some revenues will not be collected for several months after the City's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:		
Net change in special assessments		(189,789)
Changes in deferred outflows and inflows of resources related to net pension & OPEB liability		
		(15,697)
Change in net pension & OPEB liability		
		(17,175)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
		<u>(2,972)</u>
Net change in net position of governmental activities		<u>\$ 307,740</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 641,038	\$ 490,568	\$ 433,495	\$ 1,227,216	\$ 2,792,317
Receivables:					
Accounts receivable	41,642	17,213	32,961	159,997	251,813
Due from other funds	-	-	-	26,351	26,351
Total current assets	<u>682,680</u>	<u>507,781</u>	<u>466,456</u>	<u>1,413,564</u>	<u>3,070,481</u>
Capital Assets-being depreciated					
Buildings and improvements	1,820,528	3,263,840	59,639	242,609	5,386,616
Equipment and vehicles	173,072	40,416	363,680	403,200	980,368
Less: Accum. depreciation	(1,069,337)	(1,621,531)	(287,239)	(554,958)	(3,533,065)
Net capital assets	<u>924,263</u>	<u>1,682,725</u>	<u>136,080</u>	<u>90,851</u>	<u>2,833,919</u>
TOTAL ASSETS	<u>1,606,943</u>	<u>2,190,506</u>	<u>602,536</u>	<u>1,504,415</u>	<u>5,904,400</u>
DEFERRED OUTFLOWS OF RESOURCES					
Cost sharing defined benefit pension plan-NDPERS	12,684	12,211	51,144	100,556	176,595
Cost sharing - OPEB	356	343	1,436	2,823	4,958
Total deferred outflows	<u>13,040</u>	<u>12,554</u>	<u>52,580</u>	<u>103,379</u>	<u>181,553</u>
LIABILITIES					
Current					
Accounts payable	13,356	-	-	52,695	66,051
Accrued salaries	546	525	2,367	4,314	7,752
Payroll taxes	4,052	-	158	(3,481)	729
Deposits	-	-	-	30,416	30,416
Bonds payable-Current portion	-	25,000	-	-	25,000
Total current liabilities	<u>17,954</u>	<u>25,525</u>	<u>2,525</u>	<u>83,944</u>	<u>129,948</u>
Long-Term					
Bonds payable-Long-term portion	-	235,000	-	-	235,000
Net pension liability	30,974	29,819	124,890	245,551	431,234
Net OPEB liability	1,394	1,342	5,621	11,051	19,408
Total long-term liabilities	<u>32,368</u>	<u>266,161</u>	<u>130,511</u>	<u>256,602</u>	<u>685,642</u>
TOTAL LIABILITIES	<u>50,322</u>	<u>291,686</u>	<u>133,036</u>	<u>340,546</u>	<u>815,590</u>
DEFERRED INFLOWS OF RESOURCES					
Cost sharing defined benefit pension plan-NDPERS	3,926	3,779	15,830	31,123	54,658
Cost sharing- OPEB	59	57	237	466	819
Total deferred inflows	<u>3,985</u>	<u>3,836</u>	<u>16,067</u>	<u>31,589</u>	<u>55,477</u>
NET POSITION					
Net Investment in Capital Assets	924,263	1,422,725	136,080	90,851	2,573,919
Unrestricted	641,413	484,813	369,933	1,144,808	2,640,967
TOTAL NET POSITION	<u>\$ 1,565,676</u>	<u>\$ 1,907,538</u>	<u>\$ 506,013</u>	<u>\$ 1,235,659</u>	<u>\$ 5,214,886</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
Operating Revenues:					
Charges for services	\$ 390,399	\$ 168,484	\$ 363,327	\$ 1,394,910	\$ 2,317,120
Operating Expenses:					
Salaries	15,088	19,217	86,571	157,906	278,782
Employee benefits	14,455	13,997	72,616	95,373	196,441
Property and liability insurance	1,519	1,504	2,675	2,881	8,579
Power purchased	-	-	-	516,999	516,999
Water purchased	190,073	-	-	-	190,073
Supplies	13,109	8,309	6,502	46,365	74,285
Chemicals	-	3,073	-	-	3,073
Purchased services	-	-	59,435	-	59,435
Repairs	12,082	5,498	9,250	11,866	38,696
Gas and oil	625	747	16,804	2,046	20,222
Other administrative expenses	16,671	4,383	3,671	3,354	28,079
Other production expense	9,972	2,023	-	134,619	146,614
Professional fees	6,365	2,975	2,975	3,908	16,223
Interest	-	1,425	-	-	1,425
Depreciation	35,995	52,459	25,273	9,765	123,492
Total operating expenses	<u>315,954</u>	<u>115,610</u>	<u>285,772</u>	<u>985,082</u>	<u>1,702,418</u>
Operating Income	<u>74,445</u>	<u>52,874</u>	<u>77,555</u>	<u>409,828</u>	<u>614,702</u>
Non Operating Revenues (Expenses)					
Interest earnings	3,120	1,244	880	8,193	13,437
Other revenues	1,565	524	2,120	6,658	10,867
Total non operating revenues (expenses)	<u>4,685</u>	<u>1,768</u>	<u>3,000</u>	<u>14,851</u>	<u>24,304</u>
Transfers:					
In	-	26,425	-	-	26,425
Out	(67,645)	(35,562)	(78,685)	(223,750)	(405,642)
Net operating transfers	<u>(67,645)</u>	<u>(9,137)</u>	<u>(78,685)</u>	<u>(223,750)</u>	<u>(379,217)</u>
Net Income (Loss)	11,485	45,505	1,870	200,929	259,789
Net Position, Beginning of Year, as originally reported	<u>1,555,257</u>	<u>1,863,060</u>	<u>508,045</u>	<u>1,043,185</u>	<u>4,969,547</u>
Prior Period Adjustment - Note 10	(1,066)	(1,027)	(3,902)	(8,455)	(14,450)
Net Position, Beginning as Restated	<u>1,554,191</u>	<u>1,862,033</u>	<u>504,143</u>	<u>1,034,730</u>	<u>4,955,097</u>
Net Position, End of Year	<u>\$ 1,565,676</u>	<u>\$ 1,907,538</u>	<u>\$ 506,013</u>	<u>\$ 1,235,659</u>	<u>\$ 5,214,886</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES					
Cash received from customers	\$ 389,984	\$ 168,928	\$ 361,983	\$ 1,398,176	\$ 2,319,071
Cash payments to suppliers	(247,198)	(39,649)	(158,725)	(807,872)	(1,253,444)
Cash paid to employees	(15,088)	(19,217)	(86,571)	(157,906)	(278,782)
Net cash flow from operating activities	<u>127,698</u>	<u>110,062</u>	<u>116,687</u>	<u>432,398</u>	<u>786,845</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES					
Cash received from other funds (Due from other funds)	-	-	-	25,658	25,658
Operating transfers in from other funds	-	26,425	-	-	26,425
Operating transfers out to other funds	(67,645)	(35,562)	(78,685)	(223,750)	(405,642)
Net cash flow from non-capital financing activities	<u>(67,645)</u>	<u>(9,137)</u>	<u>(78,685)</u>	<u>(198,092)</u>	<u>(353,559)</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES					
Miscellaneous revenues	1,565	524	2,120	6,658	10,867
Payment on long-term borrowing	-	(25,000)	-	-	(25,000)
Net cash flow from capital and related financing activities	<u>1,565</u>	<u>(24,476)</u>	<u>2,120</u>	<u>6,658</u>	<u>(14,133)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES					
Interest earnings	3,120	1,244	880	8,193	13,437
Net cash flow from investing activities	<u>3,120</u>	<u>1,244</u>	<u>880</u>	<u>8,193</u>	<u>13,437</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,738	77,693	41,002	249,157	432,590
CASH AND CASH EQUIVALENTS, JANUARY 1, 2018	<u>576,300</u>	<u>412,875</u>	<u>392,493</u>	<u>978,059</u>	<u>2,359,727</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2018	<u>\$ 641,038</u>	<u>\$ 490,568</u>	<u>\$ 433,495</u>	<u>\$ 1,227,216</u>	<u>\$ 2,792,317</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income	\$ 74,445	\$ 52,874	\$ 77,555	\$ 409,828	\$ 614,702
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	35,995	52,459	25,273	9,765	123,492
Changes in assets and liabilities					
(Increase)/Decrease in accounts receivable	(415)	444	(1,344)	3,266	1,951
(Increase)/Decrease in supplies	11,284	1,350	-	-	12,634
(Increase)/Decrease in deferred outflows of resources	(918)	(884)	(8,225)	(7,268)	(17,295)
Increase/(Decrease) in accounts payable	12,949	(242)	(5,858)	(13,102)	(6,253)
Increase/(Decrease) in accrued salaries	(4,481)	370	1,688	3,398	975
Increase/(Decrease) in payroll taxes	(4,994)	-	-	(2,829)	(7,823)
Increase/(Decrease) in customer deposits	-	-	-	(1,034)	(1,034)
Increase/(Decrease) in deferred inflows of resources	185	178	2,164	1,464	3,991
Increase/(Decrease) in net pension liability	3,483	3,354	24,310	27,604	58,751
Increase/(Decrease) in OPEB liability	165	159	1,124	1,306	2,754
Net cash provided (used) by operating activities	<u>\$ 127,698</u>	<u>\$ 110,062</u>	<u>\$ 116,687</u>	<u>\$ 432,398</u>	<u>\$ 786,845</u>

See Notes to the Financial Statements

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Cavalier complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City of Cavalier is a municipality in which citizens elect the mayor at large and six council members by wards. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or financial accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The City uses the criteria established by GASB Statement No. 61, *Financial Reporting Entity*, in determining which component units should be included. The criteria include, but are not limited to, 1) appointing a voting majority of an organization's governing board, and 2) the ability of the entity to impose its will on that organization or 3) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the entity. Reporting units are further defined as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the City or its constituents, and
- The City or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the City is entitled to, or can otherwise access, are significant to the City.

The City has determined that no component units meet the above criteria and, therefore, none have been included as discretely presented component units in the City's financial statements.

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary and fiduciary.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds combined.

Major funds for the governmental funds are the General Fund, Capital Projects Fund, Special Revenue Fund – Airport Authority, Debt Service Fund-2013 Utility Improvement, and Debt Service Fund-Street Improvement.

Major proprietary funds include the water fund, sewer fund, sanitation fund and electric fund.

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt, principal and interest.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector. The City includes all of the enterprise funds as major, which consist of the Water, Sewer, Sanitation and Electric Funds.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds

The reporting focus of fiduciary funds is on net assets. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Currently, the City of Cavalier has no fiduciary funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is 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 items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the “current financial resources” measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and claims and judgments (if any), are recorded only when payment is due.

If both restricted and unrestricted resources are available to use for the same purpose, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and Equivalents

In accordance with government accounting standards, the City considers cash equivalents to be temporary investments, which are readily convertible to cash, such as commercial paper and treasury bills of less than three months.

Investments consist solely of certificates of deposit with maturities of longer than three months.

Fair Value Measurements

The City accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Revenues

The City has the following program revenues: fees, fines and charges for services, operating and capital grants or contributions that are specific to a program. All other governmental revenues and general tax levies are classified as general revenues.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, special assessments, intergovernmental revenues and investment income.

Operating revenues and expenses in the enterprise funds consist of user fees, sales, charges for services and the related income and expenses associated with providing those sales and services. Non-operating revenues and expenses consist of contributions, grants, rents, interest and other miscellaneous items not associated with the services the fund is providing.

Revenues-Exchange and Non-Exchange Transactions

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the City receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the City.

Revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

Property Taxes

Property taxes attach as an enforceable lien on January 1st of the year collectible. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if taxes are not paid.

Property taxes are all considered susceptible to accrual and so have been recognized as revenues in the current fiscal period. However, delinquent taxes may not be collected soon enough in the following year to be available for current expenditures, therefore offset by deferred revenue.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Unearned Revenues

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

Inventory

Inventories of supplies are stated at cost determined on a first-in, first-out basis. They are recorded as an expense at the time individual inventory items are used.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column and in the proprietary fund statements. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at acquisition value at the date of donation. The City has established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation on exhaustible capital assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by type of asset is as follows:

Building and improvements	15 – 50 years
Equipment and vehicles	5 – 25 years
Infrastructure	50 years

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements.

In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Sources" and "Expenditures", respectively, in the fund financial statements.

Compensated Absences

Staff of the City can accumulate leave up to a total of 10 days (80 hours). Compensated absences are recognized when paid.

Sick leave is recorded as an expenditure or expense when paid. Employees are not compensated for unused sick leave.

Net Position

In the government-wide financial statements, equity is classified as "net position" and displayed in three components:

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance

The difference between assets, deferred inflows/outflows and liabilities is “Net Position” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Non-spendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority which is the Board through a resolution.

Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Minimum Fund Balance Policy

The Council has not formally adopted a fund balance policy for the General Fund.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

As of December 31, 2018, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the City's governmental activities and its business-type activities, are eliminated in the statement of activities.

Pensions

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, and 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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City has three items reported on the statement of net position as *cost-sharing defined benefit pension plan* and *deferred resources - OPEB* which represents actuarial differences within the NDPERS pension and OPEB plans as well as amounts paid to the plans after the measurement date. See notes 5 and 6 for more details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has three types of items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, *unavailable property taxes*, *delinquent special assessments* and *uncertified special assessments* are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has three items reported on the statement of net position as *cost sharing benefit pension plans* and *deferred resources - OPEB*, which represents the actuarial differences within the NDPERS pension and OPEB plans. See notes 5 and 6 for more details.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash pool of which each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents. In addition, non-pooled investments are separately held and reflected in their respective funds balance sheet as investments.

The City's investments consist of certificates of deposit with maturities of less than one year and are considered level 1 for fair value measurement.

In accordance with North Dakota laws, the City maintains deposits at depositories authorized by the city council. The depositories are members of the Federal Reserve System.

State statutes require that market value of collateral pledged to secure deposits not covered by insurance must equal 110% of the deposits. The City's cash and investments are held by the designated depository. The City's deposits and investments were covered by Federal Depository Insurance or collateral held in safekeeping in the City's name.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Credit Risk

State statutes authorize local governments to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities Capital Assets:				
Non Depreciable				
Land	\$ 273,222	\$ -	\$ -	\$ 273,222
Depreciable				
Buildings and improvements	525,562	-	-	525,562
Equipment and vehicles	1,357,754	97,005	44,943	1,409,816
Infrastructure	5,027,566	-	-	5,027,566
Construction in progress	950,885	1,064,307	-	2,015,192
Total Gov't Activities Capital Assets	<u>8,134,989</u>	<u>1,161,312</u>	<u>44,943</u>	<u>9,251,358</u>
Accumulated Depreciation				
Buildings and improvements	267,974	10,597	-	278,571
Equipment and vehicles	986,675	94,290	44,943	1,036,022
Infrastructure	1,021,781	138,168	-	1,159,949
Total Accumulated Depreciation	<u>2,276,430</u>	<u>243,055</u>	<u>44,943</u>	<u>2,474,542</u>
Net Capital Assets - Gov't Activities	<u>\$ 5,858,559</u>	<u>\$ 918,257</u>	<u>\$ -</u>	<u>\$ 6,776,816</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Changes in capital assets for the business-type activities for the year ended December 31, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-Type Activities Capital Assets:				
Water				
Buildings and improvements	\$ 1,820,528	\$ -	\$ -	\$ 1,820,528
Equipment and vehicles	173,072	-	-	173,072
Total Water Capital Assets	<u>1,993,600</u>	<u>-</u>	<u>-</u>	<u>1,993,600</u>
Water Accum. Depreciation				
Buildings and improvements	964,449	27,664	-	992,113
Equipment and vehicles	68,893	8,331	-	77,224
Total Water Accum Dep.	<u>1,033,342</u>	<u>35,995</u>	<u>-</u>	<u>1,069,337</u>
Net Capital Assets - Water	<u>\$ 960,258</u>	<u>\$ (35,995)</u>	<u>\$ -</u>	<u>\$ 924,263</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer				
Buildings and improvements	\$ 3,263,840	\$ -	\$ -	\$ 3,263,840
Equipment and vehicles	40,416	-	-	40,416
Total Sewer Capital Assets	<u>3,304,256</u>	<u>-</u>	<u>-</u>	<u>3,304,256</u>
Sewer Accum. Depreciation				
Buildings and improvements	1,535,274	49,812	-	1,585,086
Equipment and vehicles	33,798	2,647	-	36,445
Total Sewer Accum Dep.	<u>1,569,072</u>	<u>52,459</u>	<u>-</u>	<u>1,621,531</u>
Net Capital Assets - Sewer	<u>\$ 1,735,184</u>	<u>\$ (52,459)</u>	<u>\$ -</u>	<u>\$ 1,682,725</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sanitation				
Buildings and improvements	\$ 59,639	\$ -	\$ -	\$ 59,639
Equipment and vehicles	363,680	-	-	363,680
Total Sanitation Capital Assets	<u>423,319</u>	<u>-</u>	<u>-</u>	<u>423,319</u>
Sanitation Accum. Depreciation				
Buildings and improvements	26,888	1,871	-	28,759
Equipment and vehicles	235,079	23,401	-	258,480
Total Sanitation Accum Dep.	<u>261,967</u>	<u>25,272</u>	<u>-</u>	<u>287,239</u>
Net Capital Assets - Sanitation	<u>\$ 161,352</u>	<u>\$ (25,272)</u>	<u>\$ -</u>	<u>\$ 136,080</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Electric				
Buildings and improvements	\$ 242,609	\$ -	\$ -	\$ 242,609
Equipment and vehicles	403,200	-	-	403,200
Total Electric Capital Assets	<u>645,809</u>	<u>-</u>	<u>-</u>	<u>645,809</u>
Electric Accum. Depreciation				
Buildings and improvements	240,303	234	-	240,537
Machinery and equipment	304,890	9,531	-	314,421
Total Electric Accum Dep.	<u>545,193</u>	<u>9,765</u>	<u>-</u>	<u>554,958</u>
Net Capital Assets - Electric	<u>\$ 100,616</u>	<u>\$ (9,765)</u>	<u>\$ -</u>	<u>\$ 90,851</u>

Depreciation expenses charged to the various functions in the Statement of Activities are as follows:

Governmental Activities	
General government	\$ 113,089
Public safety	60,906
Highways and streets	32,650
Other	<u>36,410</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 243,055</u>
Business-Type Activities	
Water	\$ 35,993
Sewer	52,459
Sanitation	25,273
Electric	<u>9,766</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 123,491</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in the governmental and business type activities long-term debt by individual issue for the year ended December 31, 2018:

GOVERNMENTAL FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-17	New Issues	Retired	Other Adjustment	Balance 12-31-18	Due within One Year
Scott & Lynda Humble-contract for deed	2%	7/1/20	\$ 57,681	\$ -	\$ 18,847	\$ -	\$ 38,834	\$ 19,225
North Dakota Public Finance Authority	1.50%	9/1/48	34,895	558,759	-	-	593,654	15,961
Kinetic Leasing	2.65%	8/15/18	29,913	-	29,913	-	-	-
\$2,025,000 Refunding Improvement Bonds of 2013	.5-3.75%	5/1/38	1,760,000	-	65,000	-	1,695,000	65,000
\$1,555,000 Refunding Improvement Bonds of 2014	.95-3.1%	5/1/29	1,275,000	-	95,000	-	1,180,000	95,000
\$194,000 Refunding Improvement Bonds of 2014B	1.80%	5/1/21	104,402	-	28,345	-	76,057	27,668
Net Pension Liability-Main			310,165	-	-	13,030	323,195	-
Net Pension Liability-Law Enforcement			100,131	-	-	4,008	104,139	-
Net OPEB Liability			24,613	-	-	137	24,750	-
			<u>\$ 3,696,800</u>	<u>\$ 558,759</u>	<u>\$ 237,105</u>	<u>\$ 17,175</u>	<u>\$ 4,035,629</u>	<u>\$ 222,854</u>
ENTERPRISE FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-17	New Issues	Retired	Other Adjustment	Balance 12-31-18	Due within One Year
North Dakota State Revolving Fund Lift Station Improvement District	0.50%	9/1/28	\$ 285,000	\$ -	\$ 25,000	\$ -	\$ 260,000	\$ 25,000
Net Pension Liability-Main			372,482	-	-	58,752	431,234	-
Net OPEB Liability			16,654	-	-	2,754	19,408	-
			<u>\$ 674,136</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 61,506</u>	<u>\$ 710,642</u>	<u>\$ 25,000</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

The amount of future payments on the long-term debt is as follows:

\$194,000 Refunding Improvement				\$2,025,000 Refunding Improvement			
	Principal	Interest	Total		Principal	Interest	Total
2019	\$ 27,668	\$ 1,121	\$ 28,789	2019	\$ 65,000	\$ 51,255	\$ 116,255
2020	31,978	583	32,561	2020	65,000	50,280	115,280
2021	16,411	148	16,559	2021	70,000	46,058	116,058
	\$ 76,057	\$ 1,852	\$ 77,909	2022	70,000	47,588	117,588
				2023	70,000	46,118	116,118
				2024-2028	380,000	204,360	584,360
				2029-2033	445,000	140,756	585,756
				2034-2038	530,000	51,188	581,188
					\$ 1,695,000	\$ 637,603	\$ 2,332,603
\$1,555,000 Refunding Improvement				Clean Water - Sewer Extension			
	Principal	Interest	Total		Principal	Interest	Total
2019	\$ 95,000	\$ 29,113	\$ 124,113	2019	\$ 15,961	\$ 8,905	\$ 24,866
2020	100,000	27,378	127,378	2020	20,000	8,703	28,703
2021	100,000	25,303	125,303	2021	20,000	8,451	28,451
2022	100,000	22,953	122,953	2022	20,000	8,199	28,199
2023	105,000	20,544	125,544	2023	20,000	7,947	27,947
2024-2028	560,000	59,230	619,230	2024-2028	100,000	35,949	135,949
2029	120,000	1,860	121,860	2029-2033	105,000	29,642	134,642
	\$ 1,180,000	\$ 186,381	\$ 1,366,381	2034-2038	125,000	22,389	147,389
				2039-2043	130,000	14,506	144,506
				2044-2048	37,693	5,676	43,369
					\$ 593,654	\$ 150,367	\$ 744,021
Scott & Lynda Humble				Lift Station Improvement Bond			
	Principal	Interest	Total		Principal	Interest	Total
2019	\$ 19,225	\$ 775	\$ 20,000	2019	\$ 25,000	\$ 1,300	\$ 26,300
2020	19,609	391	20,000	2020	25,000	1,175	26,175
	\$ 38,834	\$ 1,166	\$ 40,000	2021	25,000	1,050	26,050
				2022	25,000	925	25,925
				2023	25,000	800	25,800
				2024-2028	135,000	2,100	137,100
					\$ 260,000	\$ 7,350	\$ 267,350

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 5 - 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 issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; PO Box 1214; Bismarck ND 58502-1214.

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 annual 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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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 benefits 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 of 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.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution 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 City reported a liability of \$754,429 for its proportionate share of the net pension liability. 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 City's proportion of the net pension liability was based on the City's 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 City's proportion was 0.044704 percent which was an increase of 0.002233 from its proportion measured as of June 30, 2017.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

For the year ended December 31, 2018, the City recognized pension expense of \$124,367. The City has elected to pay the employer and employee portion of the retirement contribution. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,997	\$ 25,667
Changes in assumptions	272,333	10,768
Net difference between projected and actual earnings on pension plan investments	-	3,670
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,857	55,517
Employer contributions subsequent to the measurement date	16,759	-
	<u>\$ 308,946</u>	<u>\$ 95,622</u>

\$16,759 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 ending December 31, 2019.

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

<u>Year ending June 30</u>	<u>Pension Expense Amount</u>
2019	\$ 63,743
2020	53,683
2021	43,317
2022	32,318
2023	3,504

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary Increases	Service at Beginning of Year	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

*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 SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages 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 by 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	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%
Cash Equivalents	0.00%	0.00%

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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).

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%.

The Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer'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:

	<u>1% Decrease in Discount rate- 5.32%</u>	<u>Current Discount Rate 6.32%</u>	<u>1% Increase in Discount Rate-7.32%</u>
Employer's proportionate share of the net pension liability	\$ <u>1,025,128</u>	\$ <u>754,429</u>	\$ <u>528,539</u>

Pension Plan Fiduciary Net Position

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NDPERS Law Enforcement Retirement System (Law Enforcement System)

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System 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 seven 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. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement 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 (55) with three or more years of service. 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 50-55 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 in the Law Enforcement 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 Law Enforcement 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.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits 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 of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 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.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	10.31%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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 Employer reported a liability of \$104,139 for its proportionate share of the net pension liability. 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At June 30, 2018, the Employer's proportion was 0.446866 percent which was a decrease of 0.00794 from its proportion measured as of June 30, 2017.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

For the year ended December 31, 2018, the Employer recognized pension expense of \$27,779. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,691	\$ 2,187
Changes in assumptions	51,155	1,698
Net difference between projected and actual earnings on pension plan investments	-	2,916
Changes in proportion and differences between employer contributions and proportionate share of contributions	260	15,529
Employer contributions subsequent to the measurement date	<u>6,624</u>	<u>-</u>
	<u>\$ 68,730</u>	<u>\$ 22,330</u>

\$6,624 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 ending December 31, 2019.

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

<u>Year ending June 30</u>	<u>Pension Expense</u>
	<u>Amount</u>
2019	\$ 9,780
2020	8,926
2021	10,994
2022	8,567
2023	1,509

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary Increases	Service at Beginning of Year	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
Age*	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

*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 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 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 by 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	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%
Cash Equivalents	0.00%	0.00%

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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).

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 Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer'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:

	<u>1% Decrease in Discount Rate- 5.32%</u>	<u>Current Discount Rate 6.32%</u>	<u>1% Increase in Discount Rate - 7.32%</u>
Employer's proportionate share of the net pension liability	\$ <u>160,720</u>	\$ <u>104,139</u>	\$ <u>58,168</u>

Pension Plan Fiduciary Net Position

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

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 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 City reported a liability of \$44,158 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.05217 percent.

For the year ended December 31, 2018, the City recognized OPEB expense of \$5,428. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,322	\$ 913
Changes in assumptions	3,623	-
Net difference between projected and actual earnings on pension plan investments	-	950
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,883	-
Employer contributions subsequent to the measurement date	<u>3,453</u>	<u>-</u>
	<u>\$ 11,281</u>	<u>\$ 1,863</u>

\$3,453 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

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

<u>Year ending June 30</u>	<u>Pension Expense Amount</u>
2019	\$ 842
2020	842
2021	842
2022	1,261
2023	1,184
Thereafter	994

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Actuarial assumptions. The total OPEB liability in the July 1, 2017 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

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37.00%	7.15%
Small Cap Domestic Equities	9.00%	14.42%
International Equities	14.00%	8.83%
Core-plus Fixed income	40.00%	0.10%

Discount rate. The discount rate used to measure the total OPEB liability was 7.5%. 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.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Sensitivity of the Employer'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:

	<u>1% Decrease in Discount Rate- 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase in Discount Rate - 8.50%</u>
Employer's proportionate share of the net pension liability	\$ <u>55,871</u>	\$ <u>44,158</u>	\$ <u>34,118</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Construction

The City has entered into various contracts with construction contractors for sewer and airport projects. These construction projects are in progress as of December 31, 2018.

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workers' Compensation Bureau. Other risks are covered by private insurance.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 8 - INTERFUND TRANSFERS AND BALANCES

Schedule of transfers	
Transfers In	
General	\$ 493,019
Special Revenue-Growth	50,000
Debt Service-2013 Utility	8,624
Street Improvement	40,000
Capital Projects	160,000
Proprietary Fund-Sewer	<u>26,425</u>
	<u>\$ 778,068</u>
Transfers Out	
General Fund	\$ 250,000
Special Revenue-Highway Tax	87,000
Special Revenue-Recreation	5,000
Special Revenue-Library	4,000
Debt Service-Lift Station	26,425
Proprietary Fund-Water	67,645
Proprietary Fund-Sewer	35,563
Proprietary Fund-Sanitation	78,685
Proprietary Fund-Electric	<u>223,750</u>
	<u>\$ 778,068</u>

These transfers consist of a revenue transfer from each enterprise fund (water, sewer, garbage and electric) into the general fund; a transfer from the recreation department, library and highway tax into the general fund for salaries and other costs; a transfer from the general fund into the growth fund for economic developments; a transfer from the general fund into the capital projects and street improvement funds for streets and highways, a transfer from the debt service fund into the sewer fund for debt service payments, a transfer from the sewer and water funds into the debt service fund for debt service payments; transfers from each proprietary fund into the general fund for insurance premiums and other costs.

The interfund receivables and payables consist of the following:

Governmental Funds	
Due from Other Funds	Amount
Electric	<u>\$ 26,351</u>
Due to Other Funds	
Special Revenue -Growth fund	<u>\$ 26,351</u>

The Electric fund advanced funds to the Growth Fund for the Hartz land purchase and will be paid back in full in 2019.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 9 – FUND BALANCES

Fund balance is categorized as follows:

Fund Balance	General	Capital Projects	Special Revenue Airport Authority	Debt Service Funds		Other Governmental Funds	Total
				2013 Utility Improvement	Street Improvement		
Non Spendable							
Inventory-supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loans receivable	-	-	-	-	-	-	-
Total nonspendable	-	-	-	-	-	-	-
Restricted							
Debt service	-	-	-	249,079	168,912	183,669	601,660
Improvements	-	738,084	-	-	-	-	738,084
Lodging tax	-	-	-	-	-	5,444	5,444
Special assessments	-	-	-	-	-	541	541
Jobs development	-	-	-	-	-	28,530	28,530
Highway tax	-	-	-	-	-	32,056	32,056
Cemetery	-	-	-	-	-	101,863	101,863
Library	-	-	-	-	-	18,830	18,830
Airport Authority	-	-	186,855	-	-	-	186,855
Growth	-	-	-	-	-	262,505	262,505
Forestry	-	-	-	-	-	1,899	1,899
Total restricted	-	738,084	186,855	249,079	168,912	635,337	1,978,267
Committed							
Fleet reserves	-	-	-	-	-	1,193	1,193
Emergency	-	-	-	-	-	8,805	8,805
Recreation	-	-	-	-	-	124,248	124,248
Fire department	-	-	-	-	-	200,207	200,207
Beautification	-	-	-	-	-	1,606	1,606
Total committed	-	-	-	-	-	336,059	336,059
Unassigned	928,725	-	-	-	-	-	928,725
Total Fund Balance	<u>\$ 928,725</u>	<u>\$ 738,084</u>	<u>\$ 186,855</u>	<u>\$ 249,079</u>	<u>\$ 168,912</u>	<u>\$ 971,396</u>	<u>\$ 3,243,051</u>

NOTE 10 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENT

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the City to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

Fund balance has also been restated to account for a cash account held by the Fire Department that had not previously been recorded. This account has been dormant for the past few years with no activity.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

As a result, beginning net position has be restated as of January 1, 2018 as follows:

	Governmental Activities	Business Type Activities	Total
Net position, January 1, 2018, as previously reported	\$ 7,902,356	\$ 4,969,548	\$ 12,871,904
Restatement for Fire Department Cash	30,882	-	30,882
Restatement for OPEB Accounting			
Net OPEB liability	(24,613)	(16,654)	(41,267)
Net deferred outflows/inflows of resources	3,257	2,204	5,461
Net position, January 1, 2018, as restated	<u>\$ 7,911,882</u>	<u>\$ 4,955,098</u>	<u>\$ 12,866,980</u>

NOTE 11 - NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the City's financial statements.

NOTE 12 – SUBSEQUENT EVENTS

No significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through July 2, 2019, which is the date these financial statements were available to be issued.

CITY OF CAVALIER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenue:				
Property taxes	\$ 92,374	\$ 92,374	\$ 95,319	\$ 2,945
Sales and use taxes	348,205	348,205	369,482	21,277
Licenses, permits and fees	7,325	7,325	7,368	43
Intergovernmental revenues	82,663	82,663	91,958	9,295
Charges for services	4,900	4,900	5,200	300
Fines and forfeits	1,000	1,000	1,630	630
Miscellaneous revenues	11,250	11,250	26,363	15,113
	<u>547,717</u>	<u>547,717</u>	<u>597,320</u>	<u>49,603</u>
Total revenues				
Expenditures:				
Current:				
General government	389,572	389,572	393,470	(3,898)
Public safety	205,282	205,282	187,708	17,574
Highways and streets	169,842	169,842	157,724	12,118
Health and welfare	92,000	92,000	89,637	2,363
Culture and recreation	66,000	66,000	67,213	(1,213)
Capital outlay	22,000	22,000	12,000	10,000
Debt service	-	-	30,725	(30,725)
	<u>944,696</u>	<u>944,696</u>	<u>938,477</u>	<u>6,219</u>
Total expenditures				
Excess of Revenues Over (Under)				
Expenditures	<u>(396,979)</u>	<u>(396,979)</u>	<u>(341,157)</u>	<u>55,822</u>
Other Financing Sources (Uses):				
Operating transfers in	506,000	506,000	493,018	(12,982)
Operating transfers out	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>
	<u>256,000</u>	<u>256,000</u>	<u>243,018</u>	<u>(12,982)</u>
Total other financing sources (uses)				
Net Change in Fund Balance	(140,979)	(140,979)	(98,139)	42,840
Fund Balance (Deficit), Beginning of Year	<u>1,043,228</u>	<u>1,043,228</u>	<u>1,043,228</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ 902,249</u>	<u>\$ 902,249</u>	<u>\$ 945,089</u>	<u>\$ 42,840</u>

See Note to the Budgetary Comparison Schedule

CITY OF CAVALIER
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 BUDGETARY COMPARISON

The governing body of each municipality, annually on or before August 10, shall make, on suitable blanks prescribed by the state tax commissioner and state auditor, an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year. The annual budget shall be prepared for the general fund, special revenue funds and debt service funds. However, the City does not adopt a budget for the Special Revenue Fund- Airport Authority. The budget is prepared on the cash basis, which is not materially different from the modified accrual basis.

The preliminary budget shall set forth specifically:

- 1) Estimated expenditures of the municipality for the current fiscal year.
- 2) Estimated expenditures for the ensuing fiscal year.
- 3) Estimated cash balance standing to the debit or credit of the municipality at the end of the current year.
- 4) Estimate of probable amounts that may be received during the ensuing year from sources other than direct property taxes, and a statement of all the uncollected taxes due to the municipality.

After the preliminary budget has been prepared the city auditor shall give notice that the preliminary budget is on file in the office of the auditor and that such budget may be examined by anyone requesting to do so. The governing body shall meet for the purpose of adopting the final budget and making the annual tax levy no later than October 7.

After completing the final budget on or before October 7, the governing body shall proceed to make the annual tax levy. Immediately after the completion of the final budget and the adoption of the tax levy by the governing body, the auditor shall send to the county auditor two certified copies of the final budget and levy no later than October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10, of each year. The budget amounts shown in the financial statements are the final authorized amounts.

The unexpended balance of the cash appropriation becomes a part of the unappropriated balance at year end.

CITY OF CAVALIER
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
ND PUBLIC EMPLOYEE RETIREMENT SYSTEM
LAST TEN FISCAL YEARS (PROSPECTIVELY)
YEAR OF IMPLEMENTATION

Main System

For The Year Ended <u>December 31</u>	City's Proportion Share of the Net Pension <u>Liability (Asset)</u>	City's Proportionate Share of the Net Pension <u>Liability (Asset)</u>	City's Covered Employee <u>Payroll</u>	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee <u>Payroll</u>	Plan Fiduciary Net Position as a Percentage of the <u>Total Pension Liability</u>
2015	0.056942%	\$ 387,196	\$ 507,286	76.33%	77.15%
2016	0.046415%	452,360	467,758	96.70%	70.46%
2017	0.042471%	682,647	433,564	157.45%	61.98%
2018	0.044704%	754,429	459,250	164.27%	62.80%

Law Enforcement

For The Year Ended <u>December 31</u>	City's Proportion Share of the Net Pension <u>Liability (Asset)</u>	City's Proportionate Share of the Net Pension <u>Liability (Asset)</u>	City's Covered Employee <u>Payroll</u>	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee <u>Payroll</u>	Plan Fiduciary Net Position as a Percentage of the <u>Total Pension Liability</u>
2015	0.702325%	\$ 42,670	\$ 102,937	41.40%	83.61%
2016	0.588958%	67,485	166,235	40.60%	78.73%
2017	0.454806%	100,131	130,828	76.54%	76.54%
2018	0.446866%	104,139	154,263	67.51%	67.51%

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for prior years is not available.

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

See Note to the Required Supplementary Information

CITY OF CAVALIER
SCHEDULE OF EMPLOYER CONTRIBUTIONS
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (PROSPECTIVELY)
YEAR OF IMPLEMENTATION

Main System

For The Year Ended <u>December 31</u>	Statutorily Required <u>Contribution</u>	Contributions in Relation to the Statutorily Required <u>Contributions</u>	Contribution <u>Deficiency (Excess)</u>	City's Covered-employee <u>Payroll</u>	Contributions as a Percentage of Covered <u>Employee Payroll</u>
2015	\$ 37,541	\$ 37,541	\$ -	\$ 527,266	7.12%
2016	33,621	33,621	-	472,207	7.12%
2017	32,625	32,625	-	458,216	7.12%
2018	33,602	33,602	-	471,935	7.12%

Law Enforcement

For The Year Ended <u>December 31</u>	Statutorily Required <u>Contribution</u>	Contributions in Relation to the Statutorily Required <u>Contributions</u>	Contribution <u>Deficiency (Excess)</u>	City's Covered-employee <u>Payroll</u>	Contributions as a Percentage of Covered <u>Employee Payroll</u>
2015	\$ 15,308	\$ 15,308	\$ -	\$ 156,074	9.81%
2016	15,661	15,661	-	159,648	9.81%
2017	15,824	15,824	-	161,306	9.81%
2018	13,914	13,914	-	141,839	9.81%

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for prior years is not available.

The amounts presented for each year were determined as of the City's year end which is December 31.

See Note to the Required Supplementary Information

CITY OF CAVALIER
SCHEDULE OF CITY'S SHARE OF THE OPEB LIABILITY
AS OF DECEMBER 31, 2018

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's 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	0.052170%	\$ 44,158	\$ 613,513	7.20%	61.89%

The amounts presented for each fiscal year were determined as of the measurement date of the City's other postemployment benefit liability which is June 30 of the previous fiscal year.

The City implemented GASB statement No. 75 for its year ended December 31, 2018. Information for the prior years is not available.

See Note to the Required Supplementary Information

CITY OF CAVALIER
SCHEDULE OF CITY'S CONTRIBUTIONS TO OPEB PLAN
AS OF DECEMBER 31, 2018

Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 6,997	\$ 6,997	\$ -	\$ 613,775	1.14%

The amounts presented for each year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 75 for its year ended December 31, 2018. Information for the prior years are not available.

See Note to the Required Supplementary Information

CITY OF CAVALIER
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 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.

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	Special Revenue Funds	Debt Service Funds	Total Non Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 690,483	\$ 183,669	\$ 874,152
Investments	91,189	-	91,189
Receivables:			
Accounts receivable	29,946	-	29,946
Taxes receivable	749	-	749
Special assessments	-	267,021	267,021
Loans receivable	2,460	-	2,460
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 814,827</u>	<u>\$ 450,690</u>	<u>\$ 1,265,517</u>
Liabilities, Deferred Inflows of Resources and Fund Balance:			
Liabilities:			
Due to other funds	\$ 26,351	\$ -	\$ 26,351
	<u> </u>	<u> </u>	<u> </u>
Deferred Inflows of Resources			
Unavailable property taxes receivable	749	-	749
Delinquent special assessments	-	12,373	12,373
Uncertified special assessments	-	254,648	254,648
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>749</u>	<u>267,021</u>	<u>267,770</u>
Fund Balance:			
Nonspendable	-	-	-
Restricted	451,668	183,669	635,337
Committed	336,059	-	336,059
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>787,727</u>	<u>183,669</u>	<u>971,396</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 814,827</u>	<u>\$ 450,690</u>	<u>\$ 1,265,517</u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue Funds	Debt Service Funds	Total Non Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 129,476	-	\$ 129,476
Special assessments	-	51,802	51,802
Intergovernmental	-	-	-
Charges for services	225,581	-	225,581
Other	59,754	-	59,754
	<u>414,811</u>	<u>51,802</u>	<u>466,613</u>
Total revenues			
Expenditures:			
Current:			
General government	6,260	-	6,260
Public safety	114,598	-	114,598
Culture and recreation	51,609	-	51,609
Capital outlay	85,005	-	85,005
Other	72,548	-	72,548
Debt Service:			
Debt principal	18,848	28,345	47,193
Interest	1,154	1,624	2,778
Fiscal charges	-	1,925	1,925
	<u>350,022</u>	<u>31,894</u>	<u>381,916</u>
Total expenditures			
Excess of Revenues Over (Under) Expenditures	64,789	19,908	84,697
Other Financing Sources (Uses):			
Sale of capital assets	22,000	-	22,000
Operating transfers in	50,000	-	50,000
Operating transfers out	(96,000)	(26,425)	(122,425)
	<u>(24,000)</u>	<u>(26,425)</u>	<u>(50,425)</u>
Total other financing sources (uses)			
Net Change in Fund Balances	<u>40,789</u>	<u>(6,517)</u>	<u>34,272</u>
Fund Balance, Beginning of Year			
As Originally Reported	716,056	190,186	906,242
Prior Period Adjustment	30,882	-	30,882
Beginning of Year, As Restated	<u>746,938</u>	<u>190,186</u>	<u>937,124</u>
Fund Balance, End of Year	<u>\$ 787,727</u>	<u>\$ 183,669</u>	<u>\$ 971,396</u>

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2018

	Special Assessments	Jobs Development Authority	Highway Tax	Lodging Tax	Fleet Reserves	Emergency	Cemetery
Assets:							
Cash and cash equivalents	\$ 541	\$ 8,530	\$ 22,522	\$ 5,032	\$ 1,193	\$ 8,805	\$ 10,674
Investments	-	-	-	-	-	-	91,189
Accounts receivable	-	20,000	9,534	412	-	-	-
Taxes receivable	-	183	-	-	-	-	186
Loans receivable	-	-	-	-	-	-	-
Total Assets	\$ 541	\$ 28,713	\$ 32,056	\$ 5,444	\$ 1,193	\$ 8,805	\$ 102,049
Liabilities, Deferred Inflows and Fund Balance							
Liabilities:							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-
Deferred Inflows of Resources							
Unavailable property taxes receivable	-	183	-	-	-	-	186
Fund Balance							
Nonspendable	-	-	-	-	-	-	-
Restricted	541	28,530	32,056	5,444	-	-	101,863
Unrestricted	-	-	-	-	-	-	-
Committed	-	-	-	-	1,193	8,805	-
Total fund balance	541	28,530	32,056	5,444	1,193	8,805	101,863
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 541	\$ 28,713	\$ 32,056	\$ 5,444	\$ 1,193	\$ 8,805	\$ 102,049

CITY OF CAVALIER
COMBINING BALANCE SHEET - CONTINUED
NONMAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2018

	Recreation	Library	Fire Department	Growth	Beautification	Forestry	Total Non Major Special Revenue Funds
Assets:							
Cash and cash equivalents	\$ 124,248	\$ 18,830	\$ 200,207	\$ 286,396	\$ 1,606	\$ 1,899	\$ 690,483
Investments	-	-	-	-	-	-	91,189
Accounts receivable	-	-	-	-	-	-	29,946
Taxes receivable	-	380	-	-	-	-	749
Loans receivable	-	-	-	2,460	-	-	2,460
Total Assets	\$ 124,248	\$ 19,210	\$ 200,207	\$ 288,856	\$ 1,606	\$ 1,899	\$ 814,827
Liabilities, Deferred Inflows and Fund Balance							
Liabilities:							
Due to other funds	\$ -	\$ -	\$ -	\$ 26,351	\$ -	\$ -	\$ 26,351
Accounts payable	-	-	-	-	-	-	-
Total Liabilities	-	-	-	26,351	-	-	26,351
Deferred Inflows of Resources							
Unavailable property taxes receivable	-	380	-	-	-	-	749
Fund Balance							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	18,830	-	262,505	-	1,899	451,668
Unrestricted	-	-	-	-	-	-	-
Committed	124,248	-	200,207	-	1,606	-	336,059
Total fund balance	124,248	18,830	200,207	262,505	1,606	1,899	787,727
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 124,248	\$ 19,210	\$ 200,207	\$ 288,856	\$ 1,606	\$ 1,899	\$ 814,827

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Assessments	Jobs Development Authority	Highway Tax	Lodging Tax	Fleet Reserves	Emergency	Cemetery
Revenues:							
Taxes	\$ 10,518	\$ 5,351	\$ 91,580	\$ 4,997	\$ -	\$ 51	\$ 5,397
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	7,833
Total revenues	10,518	5,351	91,580	4,997	-	51	13,230
Expenditures:							
Current:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other	10,005	2,500	-	5,000	123	-	7,679
Debt Service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	10,005	2,500	-	5,000	123	-	7,679
Excess Revenues Over (Under) Expenditures	513	2,851	91,580	(3)	(123)	51	5,551
Other Financing Sources (Uses)							
Sale of capital assets	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	(87,000)	-	-	-	-
Total other financing sources (uses)	-	-	(87,000)	-	-	-	-
Net Change in Fund Balances	513	2,851	4,580	(3)	(123)	51	5,551
Fund Balance (Deficit), Beginning of Year, As Originally Reported	28	25,679	27,476	5,447	1,316	8,754	96,312
Prior Period Adjustment	-	-	-	-	-	-	-
Beginning of Year, As Restated	28	25,679	27,476	5,447	1,316	8,754	96,312
Fund Balance (Deficit), End of Year	<u>\$ 541</u>	<u>\$ 28,530</u>	<u>\$ 32,056</u>	<u>\$ 5,444</u>	<u>\$ 1,193</u>	<u>\$ 8,805</u>	<u>\$ 101,863</u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – CONTINUED
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Recreation</u>	<u>Library</u>	<u>Fire Department</u>	<u>Growth</u>	<u>Beautification</u>	<u>Forestry</u>	<u>Total Special Revenue Funds</u>
Revenues:							
Taxes	\$ 164	\$ 11,418	\$ -	\$ -	\$ -	\$ -	\$ 129,476
Intergovernmental	-	-	-	-	-	-	-
Charges for services	41,475	1,455	182,651	-	-	-	225,581
Other	25,124	20,895	497	5,405	-	-	59,754
Total revenues	<u>66,763</u>	<u>33,768</u>	<u>183,148</u>	<u>5,405</u>	<u>-</u>	<u>-</u>	<u>414,811</u>
Expenditures:							
Current:							
General government	-	-	-	-	6,170	90	6,260
Public safety	-	-	114,598	-	-	-	114,598
Culture and recreation	35,828	15,781	-	-	-	-	51,609
Capital outlay	-	-	85,005	-	-	-	85,005
Other	-	-	-	47,241	-	-	72,548
Debt Service:							
Principal retirement	-	18,848	-	-	-	-	18,848
Interest	-	1,154	-	-	-	-	1,154
Total expenditures	<u>35,828</u>	<u>35,783</u>	<u>199,603</u>	<u>47,241</u>	<u>6,170</u>	<u>90</u>	<u>350,022</u>
Excess Revenues Over (Under) Expenditures	30,935	(2,015)	(16,455)	(41,836)	(6,170)	(90)	64,789
Other Financing Sources (Uses)							
Sale of capital assets	-	-	22,000	-	-	-	22,000
Operating transfers in	-	-	-	50,000	-	-	50,000
Operating transfers out	(5,000)	(4,000)	-	-	-	-	(96,000)
Total other financing sources (uses)	<u>(5,000)</u>	<u>(4,000)</u>	<u>22,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(24,000)</u>
Net Change in Fund Balances	25,935	(6,015)	5,545	8,164	(6,170)	(90)	40,789
Fund Balance (Deficit),							
Beginning of Year, As Originally Reported	98,313	24,845	163,780	254,341	7,776	1,989	716,056
Prior Period Adjustment	-	-	30,882	-	-	-	30,882
Beginning of Year, As Restated	<u>98,313</u>	<u>24,845</u>	<u>194,662</u>	<u>254,341</u>	<u>7,776</u>	<u>1,989</u>	<u>746,938</u>
Fund Balance (Deficit), End of Year	<u>\$ 124,248</u>	<u>\$ 18,830</u>	<u>\$ 200,207</u>	<u>\$ 262,505</u>	<u>\$ 1,606</u>	<u>\$ 1,899</u>	<u>\$ 787,727</u>

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
AS OF DECEMBER 31, 2018

	<u>Pines Street</u>	<u>Lift Station Improvement</u>	<u>Total Non Major Debt Service Funds</u>
Assets:			
Cash and cash equivalents	\$ 56,304	\$ 127,365	\$ 183,669
Receivables:			
Special assessments	<u>75,908</u>	<u>191,113</u>	<u>267,021</u>
 Total Assets	 <u>\$ 132,212</u>	 <u>\$ 318,478</u>	 <u>\$ 450,690</u>
 Deferred Inflows of resources			
Delinquent special assessments	\$ 10,273	\$ 2,100	\$ 12,373
Uncertified special assessments	<u>65,635</u>	<u>189,013</u>	<u>254,648</u>
Total Deferred Inflows of Resources	<u>75,908</u>	<u>191,113</u>	<u>267,021</u>
 Fund Balance:			
Restricted for debt service	<u>56,304</u>	<u>127,365</u>	<u>183,669</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u>\$ 132,212</u>	 <u>\$ 318,478</u>	 <u>\$ 450,690</u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Pines Street</u>	<u>Lift Station Improvement</u>	<u>Total Non major Debt Service Funds</u>
Revenues:			
Special assessments	\$ 28,111	\$ 23,691	\$ 51,802
Total revenues	<u>28,111</u>	<u>23,691</u>	<u>51,802</u>
Expenditures:			
Debt Service:			
Bond principal	28,345	-	28,345
Bond interest	1,624	-	1,624
Fiscal charges	500	1,425	1,925
Total expenditures	<u>30,469</u>	<u>1,425</u>	<u>31,894</u>
Excess of Revenues Over (Under) Expenditures	(2,358)	22,266	19,908
Other Financing Sources (Uses):			
Operating transfers out	-	(26,425)	(26,425)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(26,425)</u>	<u>(26,425)</u>
Net Change in Fund Balances	<u>(2,358)</u>	<u>(4,159)</u>	<u>(6,517)</u>
Fund Balance, Beginning of Year	<u>58,662</u>	<u>131,524</u>	<u>190,186</u>
Fund Balance, End of Year	<u>\$ 56,304</u>	<u>\$ 127,365</u>	<u>\$ 183,669</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mayor and Alderman of the
City Council
City of Cavalier
Cavalier, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cavalier, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cavalier's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cavalier'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the 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 find certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cavalier, North Dakota'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*.

City of Cavalier's Response to Findings

The City of Cavalier's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Cavalier's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this report

This report is intended 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.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

July 2, 2019

CITY OF CAVALIER
SCHEDULE OF FINDINGS AND RESPONSES
AS OF DECEMBER 31, 2018

Control Deficiency 2018-001 – Material Weakness

Criteria

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the City.

Condition

The City has two office employees who are responsible for all accounting and administrative functions. The individuals handle all incoming monies, prepare receipts, prepare deposits, issues all checks and distributes them, and receives bank statements and does the reconciliations. The individuals also record receipts and disbursements to the journals and maintains the general ledger. The degree of internal control is severely limited.

Cause of Condition

Considering the size of the City, it is not feasible to maintain proper separation of duties.

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

The City should attempt to maintain proper separation of duties, whenever possible.

Response

We concur with the auditor's recommendation. The City will consider the costs and benefits of this recommendation.

CITY OF CAVALIER
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
AS OF DECEMBER 31, 2018

Control Deficiency 2018-002 – Material Weakness

Criteria

An organization should design an internal control system to provide for the preparation of financial statements of the City.

Condition

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause

The City is responsible for the preparation of the financial statements and accompanying notes to the financial statements to be audited. The City's internal control system is not designed to provide for the preparation of the financial statements and accompany notes to the financial statements.

Effect

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements including proposing journal entries necessary to bring the financial statements into compliance with accounting principles generally accepted in the United States of America. This circumstance is not unusual in a city of your size.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider engaging other accountants to draft the financial statements and notes to the financial statements.

Response

We concur with the auditor's finding and will consider the risks and costs associated with the financial statement preparation.