



Cavalier County

Langdon, North Dakota

Audit Report

For the Year Ended December 31, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of Local Government

CAVALIER COUNTY
Langdon, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2015

	<u>Page(s)</u>
County Officials	1
Independent Auditor's Report	2 - 3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Activities	5
Balance Sheet - Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Combining Statement of Net Position - Aggregate Discretely Presented Component Units	10
Combining Statement of Activities - Aggregate Discretely Presented Component Units	11
Statement of Fiduciary Assets and Liabilities - Agency Funds	12
Notes to the Financial Statements	13 - 32
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	33 - 37
Pension Schedules	38
Notes to the Required Supplementary Information	39
SUPPLEMENTARY INFORMATION	
Schedule of Fund Activity - Client Basis	40
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	41 - 42
Schedule of Findings and Questioned Costs	43
Management's Letter	44 - 46

CAVALIER COUNTY
Langdon, North Dakota

COUNTY OFFICIALS

December 31, 2015

Richard Ring
Tom Borgen
Elsie Magnus
Nick Moser
Stanley Dick

Commissioner - Chairman
Commissioner - Vice Chairman
Commissioner
Commissioner
Commissioner

Lisa Gellner
Cynthia Stremick
David Zeis
Vicki Kubat
R.Scott Stewart
Anita Beauchamp
Terry Johnston
Karen Kempert

Auditor
Treasurer
Sheriff
County Recorder
State's Attorney
Clerk of Court
Road Supervisor
Emergency Manager

Current

Elsie Magnus
Nick Moser
Richard Ring
Tom Borgen
Stanley Dick

Commissioner - Chairman
Commissioner - Vice Chairman
Commissioner
Commissioner
Commissioner

Lisa Gellner
Cynthia Stremick
Greg Fetsch
Vicki Kubat
R.Scott Stewart
Anita Beauchamp
Terry Johnston
Karen Kempert

Auditor
Treasurer
Sheriff
County Recorder
State's Attorney
Clerk of Court
Road Supervisor
Emergency Manager

STATE AUDITOR

ROBERT R. PETERSON
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Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cavalier County
Langdon, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, Langdon, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, Langdon, North Dakota, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CAVALIER COUNTY

Independent Auditor's Report - Continued

Emphasis of a Matter

As discussed in Note 24 to the financial statements, Cavalier County adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension schedules, and the notes to the required supplementary information* on pages 33-39 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.

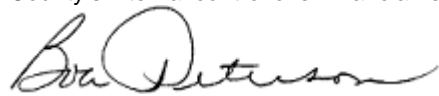
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cavalier County's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of fund activity arising from cash transactions* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity arising from cash transactions* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016 on our consideration of Cavalier County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cavalier County's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 8, 2016

CAVALIER COUNTY
Langdon, North Dakota

STATEMENT OF NET POSITION
December 31, 2015

	Primary Government	
	Governmental Activities	Component Units
ASSETS		
Cash, Cash Equivalents and Investments	\$ 6,613,062	\$ 751,019
Accounts Receivable	-	8,332
Intergovernmental Receivable	269,816	5,710
Road Accounts Receivable	60,400	-
Taxes Receivable	58,674	3,946
City Loans Receivable	-	406,211
Capital Assets (not being depreciated):		
Land	10,000	-
Construction in Progress	3,549,582	-
Capital Assets (net of accumulated depreciation):		
Buildings	205,000	-
Building Improvements	130,058	-
Vehicles & Equipment	1,603,289	30,192
Infrastructure	6,474,662	2,050,592
Total Capital Assets	<u>\$ 11,972,591</u>	<u>\$ 2,080,784</u>
Total Assets	<u>\$ 18,974,543</u>	<u>\$ 3,256,002</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	\$ 167,997	\$ 9,545
Total Assets and Deferred Outflows of Resources	<u>\$ 19,142,540</u>	<u>\$ 3,265,547</u>
LIABILITIES:		
Accounts Payable	\$ 76,956	\$ -
Grants Received in Advance	23,862	-
Salaries and Benefits Payable	-	4,080
City Loans Payable	-	348,746
Retainages Payable	58,201	-
Interest Payable	9,875	4,501
Long-Term Liabilities:		
Due Within One Year:		
Loans Payable	169,846	191,854
Compensated Absences Payable	23,492	2,669
Due After One Year:		
Loans Payable	433,669	60,857
Compensated Absences Payable	211,426	24,022
Net Pension Liability	1,385,261	117,324
Total Liabilities	<u>\$ 2,392,588</u>	<u>\$ 754,053</u>
DEFERRED INFLOWS OF RESOURCES:		
Taxes Received in Advance	\$ 1,150,452	\$ -
Pension	158,012	16,322
Total Deferred Inflows of Resources	<u>\$ 1,308,464</u>	<u>\$ 16,322</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 3,701,052</u>	<u>\$ 770,375</u>
NET POSITION		
Net Investment in Capital Assets	\$ 11,369,076	\$ 2,080,784
Restricted for:		
Public Safety	35,548	-
Highways & Bridges	748,431	-
Health & Welfare	532,698	150,599
Conservation of Natural Resources	189,318	253,411
Emergencies	49,471	-
General Government	766,353	-
Unrestricted	1,750,593	-
Total Net Position	<u>\$ 15,441,488</u>	<u>\$ 2,495,172</u>

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

CAVALIER COUNTY
Langdon, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Fines, Forteits & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
Primary Government:						
General Government	\$ 1,699,707	\$ 111,936	\$ -	\$ -	\$ (1,587,771)	
Public Safety	759,676	150,542	147,622	-	(461,512)	
Highways & Bridges	4,761,572	280,511	2,094,002	3,067,112	680,053	
Health & Welfare	896,793	134,382	113,866	-	(648,545)	
Flood Repair	257,608	-	257,608	-	-	
Conservation of Natural Resources	264,502	9,150	46,381	-	(208,971)	
Interest and Fees on Long-Term Debt	15,537	-	-	-	(15,537)	
Total Governmental Activities	\$ 8,655,395	\$ 686,521	\$ 2,659,479	\$ 3,067,112	\$ (2,242,283)	
Component Units:						
Water Resource District	\$ 419,234	\$ 133,469	\$ 45,148	\$ -		\$ (240,617)
Health District	462,690	142,923	301,238	-		(18,529)
Job Development Authority	173,422	8,762	-	-		(164,660)
Total Component Units	\$ 1,055,346	\$ 285,154	\$ 346,386	\$ -		\$ (423,806)
General Revenues:						
Taxes:						
Property taxes; levied for general purposes					\$ 946,101	\$ 300,928
Property taxes; levied for special purposes					3,397,648	203,481
Sales taxes					-	18,595
Grants and contributions not restricted to specific programs					613,442	-
Unrestricted investment earnings					36,470	2,681
Miscellaneous revenue					98,042	22,607
Total General Revenues					\$ 5,091,703	\$ 548,292
Change in Net Position					\$ 2,849,420	\$ 124,486
Net Position - January 1					\$ 13,913,808	\$ 2,491,087
Prior Period Adjustment					(1,321,740)	(120,401)
Net Position - January 1, as restated					\$ 12,592,068	\$ 2,370,686
Net Position - December 31					\$ 15,441,488	\$ 2,495,172

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

CAVALIER COUNTY
Langdon, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2015

	General	Farm to Market Road	County Road & Bridge	Road and Bridge Excess Levy	County Poor	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Cash and Cash Equivalents	\$ 2,061,148	\$ 184,754	\$ 215,947	\$ 849,419	\$ 884,731	\$ -	\$ 2,417,063	\$ 6,613,062
Intergovernmental Receivable	161,526	-	-	33,398	-	-	74,892	269,816
Road Receivables	-	-	60,400	-	-	-	-	60,400
Taxes Receivable	12,692	7,174	3,918	5,518	10,588	-	18,784	58,674
Total Assets	\$ 2,235,366	\$ 191,928	\$ 280,265	\$ 888,335	\$ 895,319	\$ -	\$ 2,510,739	\$ 7,001,952
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ -	\$ -	\$ 9,288	\$ 62,028	\$ 5,640	\$ -	\$ -	\$ 76,956
Grants Received in Advance	-	-	-	-	-	-	23,862	23,862
Total Liabilities	\$ -	\$ -	\$ 9,288	\$ 62,028	\$ 5,640	\$ -	\$ 23,862	\$ 100,818
Deferred Inflows of Resources:								
Road Receivables	\$ -	\$ -	\$ 60,400	\$ -	\$ -	\$ -	\$ -	\$ 60,400
Taxes Received in Advance	476,026	154,712	215,406	-	160,663	-	143,645	1,150,452
Taxes Receivable	12,692	7,174	3,918	5,518	10,588	-	18,784	58,674
Total Deferred Inflows of Resources	\$ 488,718	\$ 161,886	\$ 279,724	\$ 5,518	\$ 171,251	\$ -	\$ 162,429	\$ 1,269,526
Total Liabilities and Deferred Inflows of Resources	\$ 488,718	\$ 161,886	\$ 289,012	\$ 67,546	\$ 176,891	\$ -	\$ 186,291	\$ 1,370,344
Fund Balances:								
Restricted for:								
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,204,451	\$ 1,204,451
Public Safety	-	-	-	-	-	-	452,952	452,952
Highways & Bridges	-	30,042	-	820,789	-	-	217,866	1,068,697
Health & Welfare	-	-	-	-	718,428	-	182,432	900,860
Conservation of Natural Resources	-	-	-	-	-	-	217,414	217,414
Emergencies	-	-	-	-	-	-	49,333	49,333
Unassigned:	1,746,648	-	(8,747)	-	-	-	-	1,737,901
Total Fund Balances	\$ 1,746,648	\$ 30,042	\$ (8,747)	\$ 820,789	\$ 718,428	\$ -	\$ 2,324,448	\$ 5,631,608
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,235,366	\$ 191,928	\$ 280,265	\$ 888,335	\$ 895,319	\$ -	\$ 2,510,739	\$ 7,001,952

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

CAVALIER COUNTY
Langdon, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2015

Total *Fund Balances* of Governmental Funds \$ 5,631,608

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

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

Cost of Capital Assets	\$ 14,868,297	
Less Accumulated Depreciation	<u>(2,895,706)</u>	11,972,591

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

Property Taxes Receivable	\$ 58,674	
Road Department Accounts Receivable	<u>60,400</u>	119,074

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

Deferred Outflows Related to Pensions	\$ 167,997	
Deferred Inflows Related to Pensions	<u>(158,012)</u>	9,985

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term- are reported in the statement of net position. Balances at December 31, 2015 are the following:

Loans Payable	\$ (603,515)	
Retainage Payable	(58,201)	
Interest Payable	(9,875)	
Net Pension Liability	(1,385,261)	
Compensated Absences Payable	<u>(234,918)</u>	<u>(2,291,770)</u>

Total Net Position of Governmental Activities \$ 15,441,488

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

CAVALIER COUNTY
Langdon, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General	Farm to Market Road	County Road & Bridge	Road and Bridge Excess Levy	County Pool	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 945,340	\$ 524,512	\$ 286,463	\$ 403,469	\$ 805,716	\$ -	\$ 1,373,500	\$ 4,339,000
Intergovernmental	759,452	661,209	-	790,802	-	-	1,061,458	3,272,921
Charges for Services	201,511	-	260,481	-	-	-	203,047	665,039
Licenses, Permits and Fees	1,452	-	-	-	-	-	-	1,452
Interest Income	36,470	-	-	-	-	-	-	36,470
Miscellaneous	51,884	-	-	-	-	964	45,194	98,042
Total Revenues	\$ 1,996,109	\$ 1,185,721	\$ 546,944	\$ 1,194,271	\$ 805,716	\$ 964	\$ 2,683,199	\$ 8,412,924
Expenditures:								
Current:								
General Government	\$ 1,006,543	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 697,045	\$ 1,703,588
Public Safety	812,434	-	-	-	-	-	14,720	827,154
Highways & Bridges	-	1,371,372	984,437	1,097,090	-	-	67,360	3,520,259
Health & Welfare	31,812	-	-	-	56,055	-	801,128	888,995
Flood Repair	-	-	-	-	-	-	257,608	257,608
Conserv. of Natural Resources	-	-	-	-	-	-	265,945	265,945
Capital Outlay	18,950	-	-	-	-	1,099,395	-	1,118,345
Debt Service:								
Principal	-	165,000	169,129	-	-	-	-	334,129
Interest	-	2,310	18,818	-	-	-	-	21,128
Total Expenditures	\$ 1,869,739	\$ 1,538,682	\$ 1,172,384	\$ 1,097,090	\$ 56,055	\$ 1,099,395	\$ 2,103,806	\$ 8,937,151
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 126,370	\$ (352,961)	\$ (625,440)	\$ 97,181	\$ 749,661	\$ (1,098,431)	\$ 579,393	\$ (524,227)
Other Financing Sources (Uses):								
Transfers in	\$ 88,478	\$ 411,544	\$ 632,980	\$ -	\$ -	\$ -	\$ 605,476	\$ 1,738,478
Loan/Debt Proceeds	-	-	65,135	-	-	-	-	65,135
Transfers out	(128,074)	-	(17,867)	-	(542,500)	-	(1,050,037)	(1,738,478)
Total Other Financing Sources and Uses	\$ (39,596)	\$ 411,544	\$ 680,248	\$ -	\$ (542,500)	\$ -	\$ (444,561)	\$ 65,135
Net Change in Fund Balances	\$ 86,774	\$ 58,583	\$ 54,808	\$ 97,181	\$ 207,161	\$ (1,098,431)	\$ 134,832	\$ (459,092)
Fund Balances - January 1	\$ 1,659,874	\$ (28,541)	\$ (63,555)	\$ 723,608	\$ 511,267	\$ 1,098,431	\$ 2,189,616	\$ 6,090,700
Fund Balances - December 31	\$ 1,746,648	\$ 30,042	\$ (8,747)	\$ 820,789	\$ 718,428	\$ -	\$ 2,324,448	\$ 5,631,608

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

CAVALIER COUNTY
Langdon, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Net Change in *Fund Balances* - Total Governmental Funds \$ (459,092)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and capital contributions exceeded depreciation in the current year.

Current Year Capital Outlay	\$ 511,523	
Capital Grants and Contributions	3,067,112	
Current Year Depreciation Expense	<u>(521,105)</u>	3,057,530

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold. (3,000)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of debt increases liabilities in the statement of net position. This is the amount by which debt repayment exceeded debt issuance during the current year.

Repayment of Debt - Bonds	\$ 165,000	
Issuance of Loans	(65,135)	
Repayment of Debt - Loans	<u>169,129</u>	<u>268,994</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Decrease in Interest Payable	\$ 5,591	
Increase in Retainage Payable	(58,201)	
Decrease in Compensated Absences	<u>15,770</u>	(36,840)

The Net Pension Liability and related Deferred Outflows of Resources and Deferred Inflows of Resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension Liability	\$ (143,416)	
Increase in Deferred Outflows of Resources Related to Pensions	56,064	
Decrease in Deferred Inflows of Resources Related to Pensions	<u>84,401</u>	(2,951)

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

Increase in Taxes Receivable	\$ 4,749	
Increase in Road Receivables	<u>20,030</u>	<u>24,779</u>

Change in Net Position of Governmental Activities \$ 2,849,420

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

CAVALIER COUNTY
Langdon, North Dakota

COMBINING STATEMENT OF NET POSITION
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2015

	Component Units			
	Water Resource District	Health District	Job Development Authority	Total
ASSETS				
Cash, Cash Equivalents and Investments	\$ 471,357	\$ 249,005	\$ 30,657	\$ 751,019
Accounts Receivable	-	8,094	238	8,332
Intergovernmental Receivable	-	5,710	-	5,710
Taxes Receivable	1,155	861	1,930	3,946
Loans Receivable	-	-	406,211	406,211
Capital Assets (net of accumulated depreciation):				
Vehicles and Equipment	30,192	-	-	30,192
Infrastructure	2,050,592	-	-	2,050,592
Total Capital Assets	<u>\$ 2,080,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,080,784</u>
Total Assets	<u>\$ 2,553,296</u>	<u>\$ 263,670</u>	<u>\$ 439,036</u>	<u>\$ 3,256,002</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension	\$ -	\$ 6,390	\$ 3,155	\$ 9,545
Total Assets and Deferred Outflows of Resources	<u>\$ 2,553,296</u>	<u>\$ 270,060</u>	<u>\$ 442,191</u>	<u>\$ 3,265,547</u>
LIABILITIES				
City Loans Payable	\$ -	\$ -	\$ 348,746	\$ 348,746
Payroll Liabilities	2,434	-	1,646	4,080
Interest Payable	4,501	-	-	4,501
Long-Term Liabilities:				
Due Within One Year:				
Loans Payable	191,854	-	-	191,854
Compensated Absences Payable	-	2,259	410	2,669
Due After One Year:				
Loans Payable	20,312	-	40,545	60,857
Compensated Absences Payable	-	20,333	3,689	24,022
Net Pension Liability	-	84,352	32,972	117,324
Total Liabilities	<u>\$ 219,101</u>	<u>\$ 106,944</u>	<u>\$ 428,008</u>	<u>\$ 754,053</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension	\$ -	\$ 12,517	\$ 3,805	\$ 16,322
Total Liabilities and Deferred Inflows of Resources	<u>\$ 219,101</u>	<u>\$ 119,461</u>	<u>\$ 431,813</u>	<u>\$ 770,375</u>
NET POSITION				
Net Investment in Capital Assets	\$ 2,080,784	\$ -	\$ -	\$ 2,080,784
Restricted for:				
Health & Welfare	-	150,599	-	150,599
Conservation of Natural Resources	253,411	-	-	253,411
Unrestricted	-	-	-	-
Total Net Position	<u>\$ 2,334,195</u>	<u>\$ 150,599</u>	<u>\$ 10,378</u>	<u>\$ 2,495,172</u>

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

CAVALIER COUNTY
Langdon, North Dakota

COMBINING STATEMENT OF ACTIVITIES
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended December 31, 2015

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Program Revenues		Component Units			Totals
		Charges for Services	Operating Grants and Contributions	Water Resource	Health District	Job Development Authority	
<u>Component Units:</u>							
Water Resource District	\$ 419,234	\$ 133,469	\$ 45,148	\$ (240,617)	\$ -	\$ -	\$ (240,617)
Health District	462,690	142,923	301,238	-	(18,529)	-	(18,529)
Job Development Authority	173,422	8,762	-	-	-	(164,660)	(164,660)
Total Component Units	\$ 1,055,346	\$ 285,154	\$ 346,386	\$ (240,617)	\$ (18,529)	\$ (164,660)	\$ (423,806)
<u>General Revenues:</u>							
<u>Taxes:</u>							
Taxes (general purposes)				\$ 85,932	\$ 72,445	\$ 142,551	\$ 300,928
Taxes (special purposes)				203,481	-	-	203,481
Sales taxes				-	-	18,595	18,595
Unrestricted investment & interest earnings				2,113	567	1	2,681
Miscellaneous revenue				773	86	21,748	22,607
Total General Revenues				\$ 292,299	\$ 73,098	\$ 182,895	\$ 548,292
Change in Net Position				\$ 51,682	\$ 54,569	\$ 18,235	\$ 124,486
Net Position - January 1				\$ 2,282,513	\$ 187,016	\$ 21,558	\$ 2,491,087
Prior Period Adjustments				-	(90,986)	(29,415)	(120,401)
Net Assets - January 1, as restated				\$ 2,282,513	\$ 96,030	\$ (7,857)	\$ 2,370,686
Net Position - December 31				\$ 2,334,195	\$ 150,599	\$ 10,378	\$ 2,495,172

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

CAVALIER COUNTY
Langdon, North Dakota

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2015

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 1,688,016</u>
<u>LIABILITIES</u>	
Due to Other Governments	<u>\$ 1,688,016</u>

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

CAVALIER COUNTY
Langdon, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Based on these criteria, there are three discretely presented component units to be included within Cavalier County as a reporting entity.

COMPONENT UNITS

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as aggregately discretely presented component units at the government wide level for reporting purposes with discretely presented combining statements following the government wide financial statements.

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

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

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

CAVALIER COUNTY

Notes to the Financial Statements – Continued

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

Related Organizations - The County is accountable for the following legally separate entities because it appoints a voting majority to their governing boards. Although the county is not financially accountable for this entity, as defined by GASB Statement 14, the county did provide operating grants to them as follows:

Fund/Organization	2015
County Library	\$ 106,314
Senior Citizens	129,942
Historical Society	11,586
County Ambulance	139,104

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the county's funds including its fiduciary funds. Separate statements for each fund category- *governmental* and *fiduciary*-are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The county reports the following major governmental funds:

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

Farm to Market Road Fund. This fund accounts for repair and improvement of roads that are legally restricted from taxes levied.

County Road & Bridge Fund. This fund accounts for repair and improvement of highways and bridges that are legally restricted from taxes levied.

Road & Bridge Excess Levy Fund. This fund accounts for repair and improvement of highways and bridges that are legally restricted from taxes levied.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

County Poor Fund. This fund accounts for the taxes levied for social welfare programs that are transferred to the social welfare fund to help finance the costs of providing social service benefits and programs to needy residents of the county.

Capital Projects Fund. This fund accounts for state grants received for the Highway 55 slide project. The major primary source of revenue is restricted State grants/reimbursements for the project.

Additionally, the County reports the following fund type:

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of 3 months or less.

The investments of the county during the year ended December 31, 2015 consist of certificates of deposit stated at fair value.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

E. Capital Assets

PRIMARY GOVERNMENT:

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

Per policy, general infrastructure assets acquired prior to January 1, 2004 consisting of various road and bridge network assets won't be reported in the financial statements, as the County is required to prospectively report infrastructure assets beginning January 1, 2004 as a Phase III GASB 34 implementation entity. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized.

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

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

DISCRETELY PRESENTED COMPONENT UNITS:

Capital Assets – Component Units:

Capital assets of the Cavalier County Water Resource District include infrastructure. Assets are reported in combined component unit column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend asset lives are not capitalized.

Assets	Years
Buildings / bathhouse	25
Equipment / mowers	5
Cat challenger	7
Infrastructure / dam	25

F. Compensated Absences

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

Years of Service	Hours per Month
0 to 3 years	8
4 to 7 years	10
8 to 12 years	12
13 to 18 years	14
Over 18 years	16

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations, such as compensated absences, are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period if the amounts are not material. If the amounts are material, they are capitalized and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pension

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

I. Interfund Transactions

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

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

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

J. Fund Balances & Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

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

Major Special Revenue Fund Purposes & Revenue Sources:

Purposes and major revenue sources of the major special revenue funds (county road & bridge, farm to market road, highway tax distribution, county poor, social service, and FEMA) are disclosed in more detail in Note 1B in the discussion of major funds.

Minimum Fund Balance Policy:

Cavalier County established a minimum unassigned general fund carryover balance of \$550,000, or at least 15 percent of budgeted general fund expenditures to help with financial stability. The minimum fund balance is a part of the county's fiscal policies. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the county.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Replenishing deficiencies – when fund balance falls below the minimum 15 percent range, the County will replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies shall be utilized by the County to replenish funding deficiencies:

- The County will reduce recurring expenditures to eliminate any structural deficit or,
- The County will increase revenues or pursue other funding sources, or,
- Some combination of the two options above.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between 12.5 percent and 15 percent shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between 10 percent and 12.5 percent shall be replenished over a period not to exceed three years.
- Deficiency resulting in a minimum fund balance of less than 10 percent shall be replenished over a period not to exceed five years.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A 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, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes;	Available for any remaining general fund expenditure.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Cavalier County did not have any non-spendable balances, assigned fund balances, or committed balances reported in the balance sheet at December 31, 2015.

Restricted Fund Balances – consist of the following items at December 31, 2015:

Restricted fund balances are shown by primary function on the balance sheet for general government, public safety, highways and bridges, health and welfare, conservation of natural resources, and emergencies). Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments for various grants & reimbursements) totaling \$3,893,707.

Special Revenue Funds – Restricted & Committed Fund Balances:

- (a) Restricted by specified tax levies and/or restricted Federal & State grants/reimbursements:
- Restricted tax levies – includes fund balances for various tax levies other than the general fund.
 - Restricted grants/reimbursements – primarily includes social welfare/services and highways & bridges, as well as disaster type grants in FEMA funds, and other grant type funds.

Unassigned Fund Balances:

Unassigned fund balances at year-end 2015 consist of an amount in the general fund totaling \$1,746,648, and amounts reported for negative fund balances in the county road and bridge fund (\$8,747). The ending unassigned general fund balance represents 93% of total 2015 general fund expenditures.

Net Position:

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, and less any related debt to purchase/finance the construction of those capital assets. These assets are not available for future spending.

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

Restrictions of net position in the statement of net position are shown by primary function and are restricted for public safety, highways & bridges, health & welfare, conservation of natural resources, emergencies, and general government (health insurance, insurance reserve, veteran's service officer, and social security).

Unrestricted net position is primarily unrestricted amounts related to the general fund. The unrestricted net position is available to meet the district's ongoing obligations.

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

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 2: LEGAL COMPLIANCE - BUDGETS**BUDGET AMENDMENTS**

The board of county commissioners amended the county budgeted expenditures for 2015 as follows:

	Original Budget	Budget Amendment	Amended Budget
Major Funds			
Farm to Market Road	\$ 1,060,182	\$ 478,500	\$ 1,538,682
Road and Bridge Excess Levy	379,000	656,062	1,035,062
Capital Projects	-	1,105,314	1,105,314
Nonmajor Special Revenue Funds			
Road and Bridge Equipment Replacement	-	67,360	67,360
Veteran's Service Officer	12,808	881	13,689
Health Insurance	127,016	8,286	135,302
Weed Control	115,763	30,567	146,330
E911 Land Line Tax	-	3,763	3,763
E911 Cell Phone Tax	-	10,957	10,957
Document Preservation	-	8,532	8,532

NOTE 3: DEPOSITS

In accordance with North Dakota Statutes, Cavalier County and its component units consisting of the Job Development Authority, Health District, and the Water Resource District maintain deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

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

At year ended December 31, 2015, the county's bank balances totaled \$7,520,853 and the carrying amount of deposits totaled \$8,269,168. Of the bank balances, \$600,000 was covered by Federal Depository Insurance, and \$31,790 was held at the Bank of North Dakota (not requiring collateralization). The remaining balances were entirely collateralized with securities held by the pledging financial institution's agent in the government's name.

The Water Resource District's bank balances totaled \$474,544, and the carrying amount of deposits totaled \$471,253. Of the bank balances, \$345,533 was covered by Federal Depository Insurance. The remaining balances were entirely collateralized with securities held by the pledging financial institution's agent in the government's name. The Health Unit's bank balances totaled \$273,501, which were entirely covered by Federal Depository Insurance. The carrying value of deposits totaled \$249,005. The Job Development Authority's bank balances totaled \$36,728, which were covered entirely by Federal Depository Insurance. The carrying amount of deposits totaled \$30,657.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Credit Risk:

The County and its component units may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2015, the County held certificates of deposit in the amount of \$100,000; the Water Resource District held \$5,398; and the Health Unit held \$63,222, which are all considered deposits.

Concentration of Credit Risk:

The county and component units do not have a limit on the amount they may invest in any one issuer.

The county's latest bond rating was A1 as received from Moody's Investment Services.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts due for fees and services provided. No allowance for doubtful accounts has been established for estimated uncollectible accounts receivable.

NOTE 5: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of amounts due from the state for the state and federal share of various social service programs, state aid, highway tax distribution and other state and federal grants.

NOTE 6: ROAD ACCOUNTS RECEIVABLE

Road department accounts receivable consists of amounts due for road work for individuals, townships and cities.

NOTE 7: TAXES RECEIVABLE

The taxes receivable represents the past two years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable because any defaults will be covered by enforcement of the liens.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material collections are distributed after the end of the month.

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

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Most property owners choose to pay property taxes on or before February 15 and receive the 5% discount on the property taxes.

NOTE 8: LOANS RECEIVABLE

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

NOTE 9: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2015 for the primary government:

PRIMARY GOVERNMENT: Governmental Activities	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
<i>Capital assets not being depreciated:</i>					
Land	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Construction in Progress	2,183,198	3,316,718	-	(1,950,334)	3,549,582
Total Capital Assets, Not Being Depreciated	\$ 2,193,198	\$ 3,316,718	\$ -	\$ (1,950,334)	\$ 3,559,582
<i>Capital assets being depreciated:</i>					
Buildings	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Building Improvements	232,246	-	-	-	232,246
Vehicles & Equipment	2,509,511	261,918	31,981	-	2,739,448
Infrastructure	5,886,686	-	-	1,950,334	7,837,020
Total Capital Assets, Being Depreciated	\$ 9,128,443	\$ 261,918	\$ 31,981	\$ 1,950,334	\$ 11,308,714
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 290,000	\$ 5,000	\$ -	\$ -	\$ 295,000
Building Improvements	92,899	9,289	-	-	102,188
Vehicles & Equipment	971,806	193,334	28,981	-	1,136,159
Infrastructure	1,048,877	313,481	-	-	1,362,358
Total Accumulated Depreciation	\$ 2,403,582	\$ 521,104	\$ 28,981	\$ -	\$ 2,895,705
Total Capital Assets Being Depreciated, Net	\$ 6,724,861	\$ (259,186)	\$ 3,000	\$ 1,950,334	\$ 8,413,009
Governmental Activities Capital Assets, Net	\$ 8,918,059	\$ 3,057,532	\$ 3,000	\$ -	\$ 11,972,591

Prior period adjustment totaling \$50,585 was necessary to properly restate the beginning construction in progress amount at January 1, 2015.

Depreciation expense was charged to functions/programs of the county as follows:

Governmental Activities:	Amounts
General Government	\$ 23,685
Public Safety	22,051
Highways	463,870
Health and Welfare	4,985
Conservation of Natural Resources	6,513
Total Depreciation Expense - Govt. Activities	\$ 521,104

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Water Resource District:

The following is a summary of changes in capital assets for the Cavalier County Water Resource District, a discretely presented component unit of Cavalier County, for the year ended December 31, 2015:

WATER RESOURCE DISTRICT: Governmental Activities	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
<i>Capital assets not being depreciated:</i>					
Construction in Progress	\$ 112,533	\$ 66,940	\$ -	\$ (179,473)	\$ -
<i>Capital assets being depreciated:</i>					
Vehicles & Equipment	\$ 68,072	\$ 12,924	\$ 12,804	\$ -	\$ 68,192
Infrastructure	2,928,401	-	-	179,473	3,107,874
Total Capital Assets, Being Depreciated	\$ 2,996,473	\$ 12,924	\$ 12,804	\$ 179,473	\$ 3,176,066
<i>Less Accumulated Depreciation for:</i>					
Vehicles & Equipment	\$ 31,903	\$ 11,218	\$ 5,121	\$ -	\$ 38,000
Infrastructure	932,967	124,315	-	-	1,057,282
Total Accumulated Depreciation	\$ 964,870	\$ 135,533	\$ 5,121	\$ -	\$ 1,095,282
Total Capital Assets Being Depreciated, Net	\$ 2,031,603	\$ (122,609)	\$ 7,683	\$ 179,473	\$ 2,080,784
<i>Governmental Activities Capital Assets, Net</i>	\$ 2,144,136	\$ (55,669)	\$ 7,683	\$ -	\$ 2,080,784

Depreciation expense of \$135,533 was charged to the conservation of natural resources function.

NOTE 10: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions for differences in actual and expected experience and district contributions made subsequent to the measurement date.

NOTE 11: ACCOUNTS PAYABLE

Accounts payable consists of a liability account reflecting amounts on open accounts owing to private persons or organizations for goods and services received prior to December 31.

NOTE 12: GRANTS RECEIVED IN ADVANCE

Grants received in advance consist of funds received in the FEMA fund where the eligibility requirements have not been met at December 31, 2015.

NOTE 13: SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consists of a liability account reflecting amounts owing to employees for work provided on behalf of the Water Resource District and Job Development Authority prior to December 31, 2015.

NOTE 14: CITY LOANS PAYABLE

City loans payable consists of balance due from the Cavalier County Job Development Authority to City of Langdon for loans issued from the city to the Job Development Authority for economic development projects that the JDA administers on behalf of the City of Langdon.

NOTE 15: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long-term debt outstanding at December 31, 2015.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 16: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes, taxes paid in advance, and road receivables in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes, taxes received in advance, and road receivables are measurable but not available.

Deferred inflows of resources in the statement of net position represent the amount of taxes received in advance, as well as pension items for changes in assumptions, changes in proportion of contributions, and net difference in projected and actual investment earnings.

NOTE 17: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in governmental activities long-term liabilities for Cavalier County:

County	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Spec. Assmt. Bonds	\$ 165,000	\$ -	\$ 165,000	\$ -	\$ -
Loans Payable	707,509	65,135	169,129	603,515	169,846
Compensated Absences *	250,688	-	15,770	234,918	23,492
Net Pension Liability *	1,241,845	143,416	-	1,385,261	-
Total Governmental Activities	\$ 2,365,042	\$ 208,551	\$ 349,899	\$ 2,223,694	\$ 193,338

* The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Outstanding long-term liabilities (excluding compensated absences and net pension liability) at December 31, 2015 for the primary government governmental activities consists of the following issues:

Loans Payable:

\$232,263 Loan Payable for boiler, due in monthly installments of \$1,665 to \$2,048 through April 2, 2016; interest at 3.96%.	\$ 8,154
Motor Grader Loan #1 are due in annual installments of \$29,154 to \$70,000 through April 15, 2018; interest at 3.75%.	76,909
Motor Grader Loan #2 are due in annual installments of \$26,069 through January 15, 2018; interest at 3%.	73,821
Motor Grader Loan #5 are due in annual installments of \$31,358 through January 15, 2018; interest at 3%.	172,439
Motor Grader Loan #3 are due in annual installments of \$24,310 through January 15, 2018; interest at 3%.	68,852
Truck Loan are due in annual installments of \$13,859 through May 15, 2020; interest at 2.50%.	65,135
Motor Grader Loan #4 are due in annual installments of \$29,766 through January 15, 2020; interest at 2.25%.	<u>138,205</u>
Total Loans Payable	<u>\$603,515</u>

CAVALIER COUNTY

Notes to the Financial Statements – Continued

The annual requirements to amortize outstanding long-term liabilities of the primary government, excluding compensated absences and net pension liability are as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Loans Payable	
	Principal	Interest
2016	\$ 169,846	\$ 15,540
2017	143,002	11,554
2018	118,221	7,151
2019	70,795	4,199
2020	41,526	2,099
2021 - 2025	60,125	2,741
Totals	\$ 603,515	\$ 43,284

DISCRETELY PRESENTED COMPONENT UNITS:

Cavalier County Water Resource District:

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in governmental long-term liabilities of the District:

WRD:	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Governmental Activities:					
Loans Payable	\$ 301,565	\$ 55,337	\$ 144,736	\$ 212,166	\$ 191,854

Outstanding debt (excluding compensated absences) at December 31, 2015 for the Water Resource District consists of the following issues:

Loan Payable – WRD:

\$650,000 line of credit from Farmers Merchants State Bank for the Mulberry Creek Project Phase IV; with interest at 3.250% until paid in full.	\$182,490
\$125,000 line of credit from Farmers Merchants State Bank for the Bath House project; with interest at 3.25% until paid in full over the next 3 years.	<u>29,676</u>
Total Loans Payable	<u>\$212,166</u>

The annual requirement to amortize outstanding debt of the Water Resource District, excluding compensated absences are as follows:

WRD		
Year Ending December 31	Loans Payable	
	Principal	Interest
2016	\$ 191,854	\$ 6,266
2017	9,340	660
2018	10,972	357
Totals	\$ 212,166	\$ 7,283

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Cavalier County Health Unit:

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in governmental long-term liabilities of the Unit:

Health District:	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Compensated Absences *	\$ 23,127	\$ -	\$ 535	\$ 22,592	\$ 2,259
Net Pension Liability *	81,642	2,710	-	84,352	-
Total Governmental Activities	\$ 104,769	\$ 2,710	\$ 535	\$ 106,944	\$ 2,259

* The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Job Development Authority:

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in governmental long-term liabilities of the Authority:

JDA:	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Loans Payable	\$ 58,422	\$ -	\$ 17,877	\$ 40,545	\$ 40,545
Compensated Absences *	3,993	106	-	4,099	410
Net Pension Liability *	30,067	2,905	-	32,972	-
Total Governmental Activities	\$ 92,482	\$ 3,011	\$ 17,877	\$ 77,616	\$ 40,955

* The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Outstanding debt (excluding compensated absences) at December 31, 2015 for the Job Development Authority consists of the following issues:

Loan Payable – JDA:

\$75,000 line of credit from Choice Financial Group for the Boyd Block Project;
with interest at 4.5% until paid in full. \$40,545

The annual requirement to amortize outstanding debt of the Job Development Authority, excluding compensated absences are as follows:

JDA		
Year Ending December 31	Loan #1 Payable	
	Principal	Interest
2016	\$ 40,545	\$ 1,825

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 18: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2015:

Funds	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ 88,478	\$ 128,074
Farm to Market Roads	411,544	-
County Road and Bridge	632,280	17,867
County Poor	-	542,500
Non-Major Funds:		
County Road	-	343,570
Road/Bridge Equipment Replacement	62,976	39,672
Highway Tax Distribution	-	663,786
Social Service	542,500	-
E911 Land Line Excise Tax	-	1,505
E911 Cell Phone Excise Tax	-	1,504
Total Transfers	\$ 1,737,778	\$ 1,738,478

NOTE 19: PENSION PLAN**General Information about the NDPERS Pension Plan*****North Dakota Public Employees Retirement System (Main System)***

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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; and one member elected by the retired public employees.

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). 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 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.

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 25 months of service	Greater of two percent of monthly salary or \$25
26 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

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.

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

At December 31, 2015, Cavalier County reported a liability of \$1,385,261 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was .203720 percent, which was an increase of .008068 percent from its proportion measured as of June 30, 2014.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

For the year ended December 31, 2015, the Employer recognized pension expense of \$140,934. At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 40,188	\$ -
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	49,587	5,349
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		29,243
Changes of Assumptions	-	123,420
District Contributions Subsequent to the Measurement Date	78,222	-
Total	\$ 167,997	\$ 158,012

\$78,222 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

2016	\$ (37,507)
2017	(37,507)
2018	(37,507)
2019	22,920
2020	(22,874)

Actuarial Assumptions

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	3.85% per annum for four years, then 4.50% per annum
Investment Rate of Return	8.00%, 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 with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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:

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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 8 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's Proportionate Share of the Net Pension Liability	\$ 2,124,229	\$ 1,385,261	\$ 780,652

Pension Plan Fiduciary Net Position

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

NOTE 20: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Cavalier County pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile and \$2,368,016 for public assets (mobile equipment and portable property).

CAVALIER COUNTY

Notes to the Financial Statements – Continued

Cavalier County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Cavalier County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Cavalier County with blanket fidelity bond coverage in the amount of \$1,552,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The Water Resource District and Health District have \$171,000 and \$100,000, respectively, of blanket fidelity bond coverage.

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

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

NOTE 21: JOINT VENTURES

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

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

Total Assets	\$ 828,235
Total Liabilities	(20,051)
Total Net Position	\$ 808,184
Total Revenues	\$ 848,156
Total Expenses	918,404
Change in Net Position	\$ (70,248)

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

NOTE 22: CONDUIT DEBT

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

As of December 31, 2015, there are three series of Community Development Block Grant Loans outstanding, with an aggregate principal amount payable of \$126,478.

CAVALIER COUNTY

Notes to the Financial Statements – Continued

NOTE 23: CONSTRUCTION COMMITMENTS

Cavalier Co. had the following open construction contract commitments as of December 31, 2015 as follows:

County Project:	Amended Contract	Total Completed	Retainage	Remaining Balance	% Complete
Sarles Bridge	\$ 63,507	\$ 31,607	\$ -	\$ 31,900	49.77%
Minto Bridge	394,602	383,428	7,669	18,843	97.17%
Wales Bridge	63,800	31,900	-	31,900	50.00%
Highway 55 Slide Project	1,496,269	1,422,015	26,477	100,731	95.04%
CNOB 1039	2,063,603	733,561	12,916	1,342,958	35.55%
CNOB 1012	647,647	595,066	11,139	63,720	91.88%
Total	\$ 4,729,428	\$ 3,197,577	\$ 58,201	\$ 1,590,052	67.61%

Project contract amounts include engineering costs. There is retainage totaling \$58,201 on the Minto Bridge, Highway 55 Slide Project, CNOB 1139, and CNOB 1012 projects outstanding at December 31, 2015 that is 90% covered by the North Dakota Department of Transportation and 10% covered by Cavalier County.

NOTE 24: PRIOR PERIOD ADJUSTMENTS

Change in Accounting Principle – GASB 68 & 71 - Pensions:

Net position as of January 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Additionally, net position for the county has been restated for capital assets adjustment to beginning construction in progress.

Governmental Activities - County	Amounts
Beginning Net Position, as previously reported	\$ 13,913,808
Adjustments to restate the January 1, 2015 Net Position:	
Capital Assets Adjustments - beginning CIP	50,585
Net Pension Liability	(1,241,845)
Deferred Outflows of Resources - Pensions	111,933
Deferred Inflows of Resources - Pensions	(242,413)
Net Position January 1, as restated	\$ 12,592,068

Health District:	Amounts
Beginning Net Position, as previously reported	\$ 187,016
Adjustments to restate the January 1, 2015 Net Position:	
Net Pension Liability	(81,612)
Deferred Outflows of Resources - Pensions	6,557
Deferred Inflows of Resources - Pensions	(15,931)
Net Position January 1, as restated	\$ 96,030

Job Development Authority	Amounts
Beginning Net Position, as previously reported	\$ 21,558
Adjustments to restate the January 1, 2015 Net Position:	
Net Pension Liability	(30,067)
Deferred Outflows of Resources - Pensions	6,521
Deferred Inflows of Resources - Pensions	(5,869)
Net Position January 1, as restated	\$ (7,857)

CAVALIER COUNTY
Langdon, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 931,400	\$ 931,400	\$ 945,340	\$ 13,940
Intergovernmental	898,200	898,200	759,452	(138,748)
Charges for Services	229,878	229,878	201,511	(28,367)
Licenses, Permits and Fees	1,500	1,500	1,452	(48)
Interest Income	30,000	30,000	36,470	6,470
Miscellaneous	47,900	47,900	51,884	3,984
Total Revenues	<u>\$ 2,138,878</u>	<u>\$ 2,138,878</u>	<u>\$ 1,996,109</u>	<u>\$ (142,769)</u>
<u>Expenditures:</u>				
Current:				
General Government	\$ 1,109,469	\$ 1,109,469	\$ 1,006,543	\$ 102,926
Public Safety	758,955	758,955	812,434	(53,479)
Health and Welfare	31,812	31,812	31,812	-
Capital Outlay	18,500	18,500	18,950	(450)
Total Expenditures	<u>\$ 1,918,736</u>	<u>\$ 1,918,736</u>	<u>\$ 1,869,739</u>	<u>\$ 48,997</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 220,142</u>	<u>\$ 220,142</u>	<u>\$ 126,370</u>	<u>\$ (93,772)</u>
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 88,478	\$ 88,478
Transfers out	-	-	(128,074)	(128,074)
Total Other Financing Sources and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,596)</u>	<u>\$ (39,596)</u>
Net Change in Fund Balances	<u>\$ 220,142</u>	<u>\$ 220,142</u>	<u>\$ 86,774</u>	<u>\$ (133,368)</u>
Fund Balance - January 1	<u>\$ 1,659,874</u>	<u>\$ 1,659,874</u>	<u>\$ 1,659,874</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 1,880,016</u>	<u>\$ 1,880,016</u>	<u>\$ 1,746,648</u>	<u>\$ (133,368)</u>

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

CAVALIER COUNTY
Langdon, North Dakota

BUDGETARY COMPARISON SCHEDULE
FARM TO MARKET ROAD FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 526,000	\$ 526,000	\$ 524,512	\$ (1,488)
Intergovernmental	900,000	900,000	661,209	(238,791)
Total Revenues	\$ 1,426,000	\$ 1,426,000	\$ 1,185,721	\$ (240,279)
<u>Expenditures:</u>				
Current:				
Highways & Bridges	\$ 892,872	\$ 1,371,372	\$ 1,371,372	\$ -
Debt Service:				
Principal	165,000	165,000	165,000	-
Interest	2,310	2,310	2,310	-
Total Expenditures	\$ 1,060,182	\$ 1,538,682	\$ 1,538,682	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 365,818	\$ (112,682)	\$ (352,961)	\$ (240,279)
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 411,544	\$ 411,544
Net Change in Fund Balances	\$ 365,818	\$ (112,682)	\$ 58,583	\$ 171,265
Fund Balances - January 1	\$ (28,541)	\$ (28,541)	\$ (28,541)	\$ -
Fund Balances - December 31	\$ 337,277	\$ (141,223)	\$ 30,042	\$ 171,265

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

CAVALIER COUNTY
Langdon, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY ROAD & BRIDGE FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 286,700	\$ 286,700	\$ 286,463	\$ (237)
Charges for Services	235,000	235,000	260,481	25,481
Total Revenues	<u>\$ 521,700</u>	<u>\$ 521,700</u>	<u>\$ 546,944</u>	<u>\$ 25,244</u>
<u>Expenditures:</u>				
Current:				
Highways & Bridges	\$ 1,668,581	\$ 1,668,581	\$ 919,302	\$ 749,279
Debt Service:				
Principal	-	-	169,129	(169,129)
Interest	-	-	18,818	(18,818)
Total Expenditures	<u>\$ 1,668,581</u>	<u>\$ 1,668,581</u>	<u>\$ 1,107,249</u>	<u>\$ 561,332</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (1,146,881)</u>	<u>\$ (1,146,881)</u>	<u>\$ (560,305)</u>	<u>\$ 586,576</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ -	\$ -	\$ 632,980	\$ 632,980
Transfers Out	-	-	(17,867)	(17,867)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 615,113</u>	<u>\$ 615,113</u>
Net Change in Fund Balances	<u>\$ (1,146,881)</u>	<u>\$ (1,146,881)</u>	<u>\$ 54,808</u>	<u>\$ 1,201,689</u>
Fund Balances - January 1	<u>\$ (63,555)</u>	<u>\$ (63,555)</u>	<u>\$ (63,555)</u>	<u>\$ -</u>
Fund Balances - December 31	<u>\$ (1,210,436)</u>	<u>\$ (1,210,436)</u>	<u>\$ (8,747)</u>	<u>\$ 1,201,689</u>

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

CAVALIER COUNTY
Langdon, North Dakota

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE EXCESS LEVY FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 404,400	\$ 404,400	\$ 403,469	\$ (931)
Intergovernmental	-	-	790,802	790,802
Total Revenues	\$ 404,400	\$ 404,400	\$ 1,194,271	\$ 789,871
<u>Expenditures:</u>				
Current:				
Highways and Bridges	\$ 379,000	\$ 1,035,062	\$ 1,097,090	\$ (62,028)
Excess (Deficiency) of Revenues Over Expenditures	\$ 25,400	\$ (630,662)	\$ 97,181	\$ 727,843
Fund Balances - January 1	\$ 723,608	\$ 723,608	\$ 723,608	\$ -
Fund Balances - December 31	\$ 749,008	\$ 92,946	\$ 820,789	\$ 727,843

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

CAVALIER COUNTY
Langdon, North Dakota

BUDGETARY COMPARISON SCHEDULE
COUNTY POOR FUND
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 807,800	\$ 807,800	\$ 805,716	\$ (2,084)
<u>Expenditures:</u>				
Current:				
Health & Welfare	\$ 61,700	\$ 61,700	\$ 56,055	\$ 5,645
Excess (Deficiency) of Revenues Over Expenditures	\$ 746,100	\$ 746,100	\$ 749,661	\$ 3,561
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ -	\$ -	\$ (542,500)	\$ (542,500)
Net Change in Fund Balances	\$ 746,100	\$ 746,100	\$ 207,161	\$ (538,939)
Fund Balances - January 1	\$ 511,267	\$ 511,267	\$ 511,267	\$ -
Fund Balances - December 31	\$ 1,257,367	\$ 1,257,367	\$ 718,428	\$ (538,939)

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

CAVALIER COUNTY
Langdon, North Dakota

PENSION SCHEDULES
For the Year Ended December 31, 2015

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

	2014	2015
District's proportion of the net pension liability (asset)	0.195652%	0.203720%
District's proportionate share of the net pension liability (asset)	\$ 1,241,845	\$ 1,385,261
District's covered-employee payroll	\$ 1,648,126	\$ 1,814,902
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

*Complete data for this schedule is not available prior to 2014.

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

	2014	2015
Statutorily required contribution	\$ 117,347	\$ 129,221
Contributions in relation to the statutorily required contribution	\$ (117,347)	\$ (129,221)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 1,648,126	\$ 1,814,902
Contributions as a percentage of covered-employee payroll	7.12%	7.12%

*Complete data for this schedule is not available prior to 2014.

CAVALIER COUNTY
Langdon, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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

NOTE 2: BUDGET TO ACTUAL AMOUNTS – ROAD & BRIDGE

The county entered into a loan for a motor grader in 2015. The loan proceeds and corresponding expenditures were reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the road and bridge fund. The county didn’t budget for these funds and these transactions were not recorded on the county’s general ledger. The differences are as follows:

Road & Bridge Fund	Combined Statement	Adjustment	Budget to Actual
Expenditures	\$ 1,172,384	\$ (65,135)	\$ 1,107,249
Loan Proceeds	65,135	(65,135)	-

NOTE 3: PENSIONS - CHANGES OF ASSUMPTIONS

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

CAVALIER COUNTY
Langdon, North Dakota

SCHEDULE OF FUND ACTIVITY - CLIENT BASIS
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
Primary Government:						
Major Funds:						
General Fund	\$ 1,232,919.88	\$ 2,087,713.76	\$ 88,478.25	\$ 42,605.27	\$ 1,881,385.18	\$ 1,485,121.44
State Revenue Sharing Invested	185,469.07	-	-	85,469.07	-	100,000.00
Total General Fund	\$ 1,418,388.95	\$ 2,087,713.76	\$ 88,478.25	\$ 128,074.34	\$ 1,881,385.18	\$ 1,585,121.44
Special Revenue Funds (Major):						
Farm to Market Roads	\$ (28,540.35)	\$ 1,185,719.97	\$ 411,543.99	\$ -	\$ 1,538,681.82	\$ 30,041.79
County Road and Bridge	(38,466.86)	546,944.02	632,979.84	17,867.02	1,123,049.13	540.85
Road and Bridge Excess Levy	723,608.24	1,160,872.05	-	-	1,035,061.80	849,418.49
County Poor	515,320.26	805,716.71	-	542,500.00	54,469.13	724,067.84
Total Major Special Revenue Funds	\$ 1,171,921.29	\$ 3,699,252.75	\$ 1,044,523.83	\$ 560,367.02	\$ 3,751,261.88	\$ 1,604,068.97
Capital Projects Fund (Major):						
Capital Projects Fund	\$ 1,104,350.72	\$ 963.62	\$ -	\$ -	\$ 1,105,314.34	\$ -
Total Major Funds	\$ 3,694,660.96	\$ 5,787,930.13	\$ 1,133,002.08	\$ 688,441.36	\$ 6,737,961.40	\$ 3,189,190.41
Non-Major Funds:						
Special Revenue Funds:						
County Road	\$ 220,595.91	\$ 181,563.32	\$ -	\$ 343,570.23	\$ -	\$ 58,589.00
Road/Bridge Equipment Replacement	30,591.50	40,000.00	62,976.00	39,671.50	67,359.83	26,536.17
Highway Tax Distribution	1,551.24	725,355.60	-	663,785.81	-	63,121.03
FEMA	281,469.27	-	-	-	257,607.58	23,861.69
Social Service	158.06	245,570.90	542,500.00	-	787,439.48	789.48
Emergency Fund	39,251.24	10,082.08	-	-	-	49,333.32
Veteran's Service Officer	76,556.70	17,350.83	-	-	13,688.57	80,218.96
OASIS and Social Security	462,706.86	611,653.54	-	-	527,359.06	547,001.34
Health Insurance	70,029.16	161,424.61	-	-	135,301.96	96,151.81
County Agent	89,832.83	161,391.49	-	-	108,753.32	142,471.00
Weed Control	51,412.31	169,860.59	-	-	146,329.56	74,943.34
Insurance Reserve	571,459.82	109,153.58	-	-	34,384.00	646,229.40
E911 Land Line Excise Tax	193,323.59	25,464.84	-	1,504.59	3,762.89	213,520.95
E911 Cell Phone Excise Tax	210,477.27	34,049.90	-	1,504.59	10,956.63	232,065.95
Hazardous Chemicals (Emg. Mgr. Trust)	5,752.54	1,612.50	-	-	-	7,365.04
Document Preservation	12,931.96	9,149.99	-	-	10,862.36	11,219.59
Total Non-Major Special Revenue Funds	\$ 2,318,100.26	\$ 2,503,683.77	\$ 605,476.00	\$ 1,050,036.72	\$ 2,103,805.24	\$ 2,273,418.07
Total Governmental Funds	\$ 6,012,761.22	\$ 8,291,613.90	\$ 1,738,478.08	\$ 1,738,478.08	\$ 8,841,766.64	\$ 5,462,608.48
Agency Funds:						
Sheriff Trust	\$ 1,406.00	\$ 1,102.00	\$ -	\$ -	\$ 85.00	\$ 2,423.00
Victims Assistance Fund	1,475.00	1,300.00	-	-	1,475.00	1,300.00
County Library (Agency)	4,849.23	103,241.25	-	-	106,314.07	1,776.41
Historical Society (Agency)	1,693.04	10,084.96	-	-	11,585.82	192.18
County Ambulance (Agency)	20,335.85	121,079.56	-	-	139,104.42	2,310.99
State Medical Center Levy	67.67	40,388.70	-	-	40,399.44	56.93
Job Development Authority	200.80	144,877.04	-	-	144,907.87	169.97
Game and Fish (State)	9,088.00	9,256.00	-	-	15,902.00	2,442.00
Soil Conservation District	13,661.82	80,964.48	-	-	92,983.58	1,642.72
Domestic Violence Prevention	-	700.00	-	-	630.00	70.00
Senior Citizens	13,557.13	117,925.48	-	-	129,942.21	1,540.40
NDSU County Agent Trust	6,787.71	3,885.35	-	-	4,895.42	5,777.64
Cavalier County Health District	10,649.50	62,986.77	-	-	72,429.09	1,207.18
Cav. County Water Resource District	4,616.43	82,981.73	-	-	85,986.81	1,611.35
City Airport Authority	61.96	40,358.85	-	-	39,650.31	770.50
Total Drains	-	13,230.30	-	-	13,230.30	-
Drain Maintenance	6,694.08	226,388.35	-	-	224,571.38	8,511.05
Total Cities, Parks & Townships	104,323.94	2,342,909.78	-	-	2,341,847.73	105,385.99
Total School Districts	141,860.06	2,638,895.92	-	-	2,727,369.42	53,386.56
Total Rural Fire Protection Districts	22,883.33	156,034.08	-	-	176,014.05	2,903.36
Total Agency Funds	\$ 364,211.55	\$ 6,198,590.60	\$ -	\$ -	\$ 6,369,323.92	\$ 193,478.23
Total Primary Government	\$ 6,376,972.77	\$ 14,490,204.50	\$ 1,738,478.08	\$ 1,738,478.08	\$ 15,211,090.56	\$ 5,656,086.71

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

Independent Auditor's Report

Board of County Commissioners
Cavalier County
Langdon, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cavalier County, Langdon, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Cavalier County's basic financial statements, and have issued our report thereon dated September 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cavalier County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cavalier County's internal control. Accordingly, we do not express an opinion on the effectiveness of Cavalier County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

CAVALIER COUNTY

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cavalier County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 8, 2016

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Board of County Commissioners
Cavalier County
Langdon, North Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cavalier County, Langdon, North Dakota, and the respective changes in financial position for the year ended December 31, 2015 which collectively comprise the County’s basic financial statements, and have issued our report thereon dated September 8, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated August 3, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

As part of obtaining reasonable assurance about whether Cavalier County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cavalier County are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2015. GASB Statement 68 (Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27), and GASB Statement 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68) were adopted during the year ended December 31, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated September 8, 2016.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

OTHER AUDIT FINDINGS OR ISSUES

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

The following presents our informal recommendation:

* * * * *

SEGREGATION OF DUTIES – COMPONENT UNITS

The Cavalier County Water Resource District, Cavalier County Jobs Development Authority, and Cavalier County Public Health Unit each have one/two staff members responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations. The lack of adequate segregation of duties in the check writing and mailing process, for Cavalier County Water Resource District, Cavalier County Jobs Development Authority, and Cavalier County Public Health Unit exposes these entities to risk of loss of assets, potential liabilities, and damage to the reputation of these entities, whether due to error or fraud.

CAVALIER COUNTY

Management's Letter - Continued

Due to the size, complexity, and the economic realities of the County Water Resource District, Cavalier County Jobs Development Authority, and the Cavalier County Public Health Unit, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

* * * * *

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

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



Robert R. Peterson
State Auditor

Fargo, North Dakota
September 8, 2016

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