

**CITY OF CAVALIER
CAVALIER, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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CITY OF CAVALIER
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2016

<u>Names</u>	<u>Office</u>
Ken Briese	Mayor
Craig Vaughn	Council
Lee Menzies	Council
Mike Carpenter	Council
Lacey Hinkle	Council
Mark Doyle	Council
Kelly Cluchie	Council
Katie Werner	City Auditor
Barry Walton	Operations Manager



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of December 31, 2016, and the respective changes in the financial position and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employer's share of net pension liability and schedule of employer contributions to North Dakota Public Employee Retirement System on pages 5-12 and pages 48-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017 on our consideration of the City of Cavalier, North Dakota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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

March 15, 2017

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

As management of the City of Cavalier, North Dakota, we are pleased to offer readers of the City of Cavalier, North Dakota financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider it in conjunction with the additional information presented in the accompanying letter of transmittal, the basic financial statements, the fund financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Change in Net Position: Governmental assets exceeded liabilities (net position) by \$6,987,933 at the close of the most recent fiscal year. Of this amount, \$3,511,614 (unrestricted net position) may be used to meet the government's ongoing obligations. The total net position of governmental activities of the City of Cavalier decreased by \$17,385 as a result of the most recently completed fiscal year's operations. Business-type assets exceeded liabilities by \$4,812,743 at the close of the most recent fiscal year. Net position of the business-type activities increased by \$14,520 as a result of the most recently completed fiscal year's operations.
- Total revenues from all sources were \$1,299,909 for governmental activities. Revenues from property taxes were \$226,907 in the current fiscal year compared to \$228,707 in the prior year. Sales tax revenues totaled \$360,318 in the current fiscal year; an 8% decrease from the prior year. Total expenses were \$1,726,273.
- Total revenues from all sources were \$2,256,628 for business-type activities, with total expenses of \$1,833,129.

USING THIS ANNUAL REPORT

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

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

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available expendable resources. This allows the reader to evaluate the City's short-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between the governmental funds and the government-wide financial statements.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-47 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following two tables present condensed information on the City's Net Position and Changes in Net Position for the fiscal year ended December 31, 2016. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City of Cavalier's net position includes its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Cavalier's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Table 1 – Statement of Net Position

ASSETS	Governmental Activities		Business-Type Activities	
	12/31/16	12/31/15	12/31/16	12/31/15
Current assets	\$ 3,159,738	\$ 3,239,817	\$ 2,272,267	\$ 2,032,933
Capital assets (net of accumulated depreciation)	5,202,788	5,355,913	3,116,900	3,276,488
Other assets	<u>2,442,765</u>	<u>2,460,993</u>	<u>-</u>	<u>-</u>
Total assets	<u>10,805,291</u>	<u>11,056,723</u>	<u>5,389,167</u>	<u>5,309,421</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>118,206</u>	 <u>65,384</u>	 <u>60,656</u>	 <u>32,834</u>
 LIABILITIES				
Current liabilities	359,049	156,946	64,285	10,734
Long-term liabilities	<u>3,506,537</u>	<u>3,868,821</u>	<u>525,304</u>	<u>496,375</u>
Total liabilities	<u>3,865,586</u>	<u>4,025,767</u>	<u>589,589</u>	<u>507,109</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>69,978</u>	 <u>91,022</u>	 <u>47,491</u>	 <u>36,923</u>
 NET POSITION				
Net investment in capital assets	1,714,212	1,755,583	2,806,900	2,780,113
Restricted	1,762,107	1,198,068		
Unrestricted (deficit)	<u>3,511,614</u>	<u>4,051,667</u>	<u>2,005,843</u>	<u>2,018,110</u>
Total net position	<u>\$ 6,987,933</u>	<u>\$ 7,005,318</u>	<u>\$ 4,812,743</u>	<u>\$ 4,798,223</u>

The City of Cavalier's governmental activities net position decreased by \$17,385 and business type activities net position increased by \$14,520.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Table 2 - Statement of Activities

	Governmental Activities		Business-Type Activities	
	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/16</u>	<u>12/31/15</u>
REVENUES				
Program Revenues:				
Charges for services	\$ 78,510	\$ 250,044	\$ 2,236,761	\$ 2,249,605
Operating grants	83,907	102,437	-	-
Capital grants and contributions	<u>147,264</u>	<u>1,268,650</u>	<u>-</u>	<u>-</u>
Total program revenues	<u>309,681</u>	<u>1,621,131</u>	<u>2,236,761</u>	<u>2,249,605</u>
General Revenues:				
Property taxes	226,907	228,707	-	-
Sales and use taxes	360,318	391,267	-	-
Special assessments	100,319	102,460	-	-
Intergovernmental	82,017	118,979	-	-
Sale of capital assets	17,721	-	-	-
Other	<u>202,946</u>	<u>49,261</u>	<u>19,867</u>	<u>81,308</u>
Total general revenues	<u>990,228</u>	<u>890,674</u>	<u>19,867</u>	<u>81,308</u>
Total Revenues	<u>1,299,909</u>	<u>2,511,805</u>	<u>2,256,628</u>	<u>2,330,913</u>
EXPENSES				
Governmental:				
General government	410,819	492,742	-	-
Public safety	533,181	356,910	-	-
Highways and streets	299,032	1,658,125	-	-
Health and welfare	95,181	105,265	-	-
Culture and recreation	130,764	115,305	-	-
Other	159,049	160,697	-	-
Interest	95,672	92,978	-	-
Fiscal charges	2,575	2,700	-	-
Business type activities operating expenses:				
Water	-	-	246,913	255,748
Sewer	-	-	134,095	147,197
Sanitation	-	-	284,205	251,896
Electric	<u>-</u>	<u>-</u>	<u>1,167,916</u>	<u>1,265,871</u>
Total expenses	<u>1,726,273</u>	<u>2,984,722</u>	<u>1,833,129</u>	<u>1,920,712</u>
Change in net position before transfers	(426,364)	(472,917)	423,499	410,201
Transfers in (out)	<u>408,979</u>	<u>409,014</u>	<u>(408,979)</u>	<u>(409,014)</u>
Change in net position	(17,385)	(63,903)	14,520	1,187
Net position beginning of year	7,005,318	7,376,527	4,798,223	4,961,705
GASB 68 and 71 implementation	<u>-</u>	<u>(307,306)</u>	<u>-</u>	<u>(164,669)</u>
Net position end of year	<u>\$ 6,987,933</u>	<u>\$ 7,005,318</u>	<u>\$ 4,812,743</u>	<u>\$ 4,798,223</u>

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Budgetary Highlights

The expenditures did not exceed budgeted amounts for the year ended December 31, 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Cavalier's capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$8,319,688 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery and equipment.

The following is a summary of capital asset activity for the year ended December 31, 2016 for the governmental activities and the business-type activities. Capital asset activity is shown in more detail in the notes to the financial statements (Note 3).

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets	\$ 6,366,984	\$ -	\$ -	\$ 6,366,984
Accumulated Depreciation	<u>(3,090,496)</u>	<u>(159,588)</u>	<u>-</u>	<u>(3,250,084)</u>
Net Capital Assets	<u>\$ 3,276,488</u>	<u>\$ (159,588)</u>	<u>\$ -</u>	<u>\$ 3,116,900</u>

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets	\$ 7,156,145	\$ 110,963	\$ 8,004	\$ 7,259,104
Accumulated Depreciation	<u>(1,800,232)</u>	<u>(260,972)</u>	<u>(4,888)</u>	<u>(2,056,316)</u>
Net Capital Assets	<u>\$ 5,355,913</u>	<u>\$ (150,009)</u>	<u>\$ 3,116</u>	<u>\$ 5,202,788</u>

The significant additions for 2016 in the governmental activities consisted of the entering into of a contract for deed to purchase a new building for the library.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Long-Term Debt

At year-end the City had total debt of \$4,293,406. Additional information on the City's debt can be found in Note 4 to the financial statements. The following is a summary of the long-term debt activity for the year ended December 31, 2016:

GOVERNMENTAL FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-15	New Issues	Retired	Other Adjustment	Balance 12-31-16	Due within One Year
Scott & Lynda Humble-contract for deed	2%	7/1/20	\$ -	\$ 94,275	\$ 18,116	\$ -	\$ 76,159	\$ 18,478
Kinetic Leasing	2.65%	8/15/18	87,437	-	28,386	-	59,051	29,138
\$2,025,000 Refunding Improvement Bonds of 2013	.5-3.75%	5/1/38	1,890,000	-	65,000	-	1,825,000	65,000
\$1,555,000 Refunding Improvement Bonds of 2014	.95-3.1%	5/1/29	1,460,000	-	90,000	-	1,370,000	95,000
\$194,000 Refunding Improvement Bonds of 2014B	1.80%	5/1/21	162,893	-	29,542	-	133,351	28,949
Net Pension Liability-Main			225,821	-	-	(13,765)	212,056	-
Net Pension Liability-Law Enforcement			42,670	-	-	24,815	67,485	-
			<u>\$ 3,868,821</u>	<u>\$ 94,275</u>	<u>\$ 231,044</u>	<u>\$ 11,050</u>	<u>\$ 3,743,102</u>	<u>\$ 236,565</u>
ENTERPRISE FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-15	New Issues	Retired	Other Adjustment	Balance 12-31-16	Due within One Year
North Dakota State Revolving Fund Lift Station Improvement District	0.50%	9/1/28	\$ 335,000	\$ -	\$ 25,000	\$ -	\$ 310,000	\$ 25,000
Net Pension Liability-Main			161,375	-	-	78,929	240,304	-
			<u>\$ 496,375</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 78,929</u>	<u>\$ 550,304</u>	<u>\$ 25,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

North Dakota's economy suffered major decreases in two vital revenue earning sectors in 2016 – the oil industry and agriculture. These decreases had a significant impact on the state's revenue sharing which ultimately trickles down to city government including the city of Cavalier.

2016 budgets across the state were adopted prior to having firm knowledge of the severity these cuts would bring. Early in 2016, cities were cautioned to closely monitor changes in our revenue distributions and make necessary changes to our budgets or at least have contingency plans to do so. As a result, we had department meetings with city staff and made budget cuts across the board to ensure adequate revenue sources to cover necessary expenses. We were able to make these adjustments with little to no interruption in city services.

CITY OF CAVALIER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

The city will plan for similar revenue shortfalls from the state when preparing the 2017 budget. General fund reserves are in place as a contingency for such an event. In addition, we have the option to increase transfers from the enterprise funds to supplement the lost State Aid. We will also plan a more conservative budget for expenditures going into 2017. Administrative staff will continue to monitor the changes in distributions and report the findings to the governing body when needed.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CAVALIER
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,908,718	\$ 2,019,665	\$ 4,928,383
Investments	191,189	-	191,189
Receivables:			
Taxes	5,684	-	5,684
Special assessments	-	-	-
Accounts (net of uncollectible)	44,993	239,968	284,961
Notes receivable current portion	5,757	-	5,757
Supplies	3,397	12,634	16,031
Total current assets	<u>3,159,738</u>	<u>2,272,267</u>	<u>5,432,005</u>
Capital Assets-not being depreciated			
Land	273,222	-	273,222
Capital Assets			
Buildings and improvements	600,562	5,386,616	5,987,178
Equipment and vehicles	1,357,754	980,368	2,338,122
Infrastructure	5,027,566	-	5,027,566
Less: Accumulated depreciation	<u>(2,056,316)</u>	<u>(3,250,084)</u>	<u>(5,306,400)</u>
Net capital assets	<u>5,202,788</u>	<u>3,116,900</u>	<u>8,319,688</u>
Other Assets			
Notes receivable-net of current	11,311	-	11,311
Special assessments-net of current	2,431,454	-	2,431,454
	<u>2,442,765</u>	<u>-</u>	<u>2,442,765</u>
TOTAL ASSETS	<u>10,805,291</u>	<u>5,389,167</u>	<u>16,194,458</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan-NDPERS Main	72,864	60,656	133,520
Cost sharing defined benefit pension plan-NDPERS Law Enforcement	<u>45,342</u>	<u>-</u>	<u>45,342</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>118,206</u>	<u>60,656</u>	<u>178,862</u>
LIABILITIES			
Current Liabilities			
Accounts payable	10,144	82,991	93,135
Salaries payable	9,398	6,778	16,176
Payroll taxes payable	936	605	1,541
Internal balances	76,991	(76,991)	-
Interest payable	25,015	-	25,015
Deposits payable	-	25,902	25,902
Notes payable-Current portion	47,616	-	47,616
Bonds payable-Current portion	<u>188,949</u>	<u>25,000</u>	<u>213,949</u>
Total current liabilities	<u>359,049</u>	<u>64,285</u>	<u>423,334</u>
Long-term Liabilities			
Notes payable-Non current portion	87,594	-	87,594
Bonds Payable-Non-current portion	3,139,402	285,000	3,424,402
Net pension liability-Main	212,056	240,304	452,360
Net pension liability-Law Enforcement	<u>67,485</u>	<u>-</u>	<u>67,485</u>
Total long-term liabilities	<u>3,506,537</u>	<u>525,304</u>	<u>4,031,841</u>
TOTAL LIABILITIES	<u>3,865,586</u>	<u>589,589</u>	<u>4,455,175</u>
DEFERRED INFLOWS OF RESOURCES			
Cost sharing defined benefit pension plan-NDPERS Main	41,907	47,491	89,398
Cost sharing defined benefit pension plan-NDPERS Law Enforcement	<u>28,071</u>	<u>-</u>	<u>28,071</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>69,978</u>	<u>47,491</u>	<u>117,469</u>
NET POSITION			
Net investment in capital assets	1,714,212	2,806,900	4,521,112
Restricted-debt service	629,970	-	629,970
Restricted -Airport Authority	203,440	-	203,440
Restricted-other	928,697	-	928,697
Unrestricted (deficit)	<u>3,511,614</u>	<u>2,005,843</u>	<u>5,517,457</u>
TOTAL NET POSITION	<u>\$ 6,987,933</u>	<u>\$ 4,812,743</u>	<u>\$ 11,800,676</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities							
Current							
General government	\$ 410,819	\$ 20,111	\$ -	\$ -	\$ (390,708)	\$ -	\$ (390,708)
Public safety	533,181	13,818	-	145,307	(374,056)	-	(374,056)
Highways and streets	299,032	-	83,907	-	(215,125)	-	(215,125)
Health and welfare	95,181	-	-	-	(95,181)	-	(95,181)
Culture and recreation	130,764	37,358	-	-	(93,406)	-	(93,406)
Other	159,049	7,223	-	1,957	(149,869)	-	(149,869)
Debt service							
Interest	95,672	-	-	-	(95,672)	-	(95,672)
Fiscal charges	2,575	-	-	-	(2,575)	-	(2,575)
Total Governmental Activities	<u>1,726,273</u>	<u>78,510</u>	<u>83,907</u>	<u>147,264</u>	<u>(1,416,592)</u>	<u>-</u>	<u>(1,416,592)</u>
Business-Type Activities							
Water	246,913	366,311	-	-	-	119,398	119,398
Sewer	134,095	165,303	-	-	-	31,208	31,208
Sanitation	284,205	342,608	-	-	-	58,403	58,403
Electric	1,167,916	1,362,539	-	-	-	194,623	194,623
Total Business-Type Activities	<u>\$ 1,833,129</u>	<u>\$ 2,236,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>403,632</u>	<u>403,632</u>
General Receipts:							
Property taxes					226,907	-	226,907
Sales and use taxes					360,318	-	360,318
Special assessments-interest					100,319	-	100,319
Intergovernmental (not restricted for specific program)							
State					82,017	-	82,017
Sale of capital assets					17,721	-	17,721
Other general revenues					202,946	19,867	222,813
Transfers in (out)					408,979	(408,979)	-
Total General Receipts and Transfers					<u>1,399,207</u>	<u>(389,112)</u>	<u>1,010,095</u>
Changes in Net Position					<u>(17,385)</u>	<u>14,520</u>	<u>(2,865)</u>
Net Position, January 1					<u>7,005,318</u>	<u>4,798,223</u>	<u>11,803,541</u>
Net Position, December 31					<u>\$ 6,987,933</u>	<u>\$ 4,812,743</u>	<u>\$ 11,800,676</u>

See Notes to the Financial Statements

CITY OF CAVALIER
BALANCE SHEET-GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	General	Capital Projects	Special Revenue Fund Fire	Debt Service Funds		Other Governmental Funds	Total
				2013 Utility Improvement	Street Improvement		
ASSETS							
Cash and cash equivalents	\$ 850,566	\$ 630,126	\$ 172,906	\$ 241,289	\$ 190,765	\$ 823,066	\$ 2,908,718
Investments	100,000	-	-	-	-	91,189	191,189
Receivables:							
Taxes	4,522	-	-	-	-	1,162	5,684
Special assessments	-	-	-	1,408,329	675,904	347,221	2,431,454
Accounts	36,525	-	-	-	-	8,468	44,993
Loans	-	-	-	-	-	17,068	17,068
Supplies	3,397	-	-	-	-	-	3,397
Total Assets	\$ 995,010	\$ 630,126	\$ 172,906	\$ 1,649,618	\$ 866,669	\$ 1,288,174	\$ 5,602,503
LIABILITIES							
Accounts payable	\$ 6,903	\$ -	\$ -	\$ -	\$ -	\$ 3,241	\$ 10,144
Accrued salaries	9,398	-	-	-	-	-	9,398
Due to other funds	-	-	-	-	-	76,991	76,991
Payroll taxes	936	-	-	-	-	-	936
Total liabilities	17,237	-	-	-	-	80,232	97,469
DEFERRED INFLOWS OF RESOURCES							
Unavailable property taxes receivable	4,522	-	-	-	-	1,162	5,684
Delinquent special assessments	-	-	-	6,589	3,314	12,633	22,536
Uncertified special assessments	-	-	-	1,401,740	672,590	334,588	2,408,918
Total deferred inflows of resources	4,522	-	-	1,408,329	675,904	348,383	2,437,138
FUND BALANCE							
Nonspendable							
Inventory- supplies	3,397	-	-	-	-	-	3,397
Loans receivable	-	-	-	-	-	17,068	17,068
Restricted	-	630,126	-	241,289	190,765	699,927	1,762,107
Committed	-	-	172,906	-	-	142,564	315,470
Unassigned	969,854	-	-	-	-	-	969,854
Total Fund Balance	973,251	630,126	172,906	241,289	190,765	859,559	3,067,896
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 995,010	\$ 630,126	\$ 172,906	\$ 1,649,618	\$ 866,669	\$ 1,288,174	\$ 5,602,503

See Notes to the Financial Statements

CITY OF CAVALIER
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
AS OF DECEMBER 31, 2016

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

Total fund balance-governmental funds		\$ 3,067,896
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets		\$ 7,259,104
Accumulated Depreciation		(2,056,316)
Net		5,202,788
Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.		
		48,228
Property taxes, special assessments receivable and long-term receivables will not be collected soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
		2,437,138
Interest payable reported in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		
		(25,015)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:		
Notes Payable		(135,210)
Bonds Payable		(3,328,351)
Net Pension Liability-Main		(212,056)
Net Pension Liability-Law Enforcement		(67,485)
		(3,743,102)
Total net position-governmental activities		\$ 6,987,933

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Capital Projects	Special	Debt Service Funds		Other	Total
			Revenue Fund Fire	2013 Utility Improvement	Street Improvement	Governmental Funds	
Revenues:							
Property Taxes	\$ 132,276	\$ -	\$ -	\$ -	\$ -	\$ 95,322	\$ 227,598
Sales and Use Taxes	360,318	-	-	-	-	-	360,318
Special assessments	-	-	-	136,513	76,882	54,246	267,641
Licenses, permits and fees	8,375	-	-	-	-	-	8,375
Intergovernmental revenues	82,017	-	145,307	-	-	85,864	313,188
Charges for services	9,148	-	13,818	-	-	44,581	67,547
Fines and forfeits	2,588	-	-	-	-	-	2,588
Miscellaneous revenues	16,469	6,299	141,518	-	-	38,660	202,946
Total revenues	<u>611,191</u>	<u>6,299</u>	<u>300,643</u>	<u>136,513</u>	<u>76,882</u>	<u>318,673</u>	<u>1,450,201</u>
Expenditures:							
Current:							
General government	242,396	-	-	-	-	116,173	358,569
Public safety	220,612	-	255,205	-	-	-	475,817
Highways and streets	145,375	115,388	-	-	-	-	260,763
Health and welfare	95,181	-	-	-	-	-	95,181
Culture and recreation	80,266	-	-	-	-	50,498	130,764
Other	-	-	-	-	-	108,777	108,777
Capital outlay	16,688	-	-	-	-	94,275	110,963
Debt service:							
Principal retirement	28,386	-	-	65,000	90,000	47,658	231,044
Interest	2,317	-	-	54,180	33,028	6,227	95,752
Fiscal charges	-	-	-	-	450	2,125	2,575
Total expenditures	<u>831,221</u>	<u>115,388</u>	<u>255,205</u>	<u>119,180</u>	<u>123,478</u>	<u>425,733</u>	<u>1,870,205</u>
Excess of Revenues Over (Under) Expenditures	<u>(220,030)</u>	<u>(109,089)</u>	<u>45,438</u>	<u>17,333</u>	<u>(46,596)</u>	<u>(107,060)</u>	<u>(420,004)</u>
Other Financing Sources (Uses):							
Sale of fixed assets	250	-	-	-	-	20,587	20,837
Proceeds from debt issuance	-	-	-	-	-	94,275	94,275
Operating transfers in	614,893	100,000	-	8,627	40,000	129,139	892,659
Operating transfers out	(269,140)	-	-	-	-	(214,540)	(483,680)
Total other financing sources (uses)	<u>346,003</u>	<u>100,000</u>	<u>-</u>	<u>8,627</u>	<u>40,000</u>	<u>29,461</u>	<u>524,091</u>
Excess of Revenues and Other Sources (Uses) Over (Under) Expenditures and Other Uses	<u>125,973</u>	<u>(9,089)</u>	<u>45,438</u>	<u>25,960</u>	<u>(6,596)</u>	<u>(77,599)</u>	<u>104,087</u>
Fund Balance (Deficit), Beginning of Year	<u>847,278</u>	<u>639,215</u>	<u>127,468</u>	<u>215,329</u>	<u>197,361</u>	<u>937,158</u>	<u>2,963,809</u>
Fund Balance (Deficit), End of Year	<u>\$ 973,251</u>	<u>\$ 630,126</u>	<u>\$ 172,906</u>	<u>\$ 241,289</u>	<u>\$ 190,765</u>	<u>\$ 859,559</u>	<u>\$ 3,067,896</u>

See Notes to the Financial Statements

CITY OF CAVALIER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balance- total governmental funds		\$ 104,087
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Capital asset purchases capitalized		\$ 110,963
Depreciation expense		<u>(260,972)</u>
Excess of capital outlay over depreciation expense		(150,009)
Basis of capital assets upon disposition		(3,116)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.</p>		
		231,044
<p>The issuance of long-term liabilities provides current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the Statement of Net Position.</p>		
		(94,275)
<p>Some revenues will not be collected for several months after the City's fiscal year end. These revenues are not considered "available" revenues in the governmental funds. These consist of:</p>		
Net change in deferred inflows		(168,013)
Changes in deferred outflows and inflows of resources related to net pension liability		73,867
Change in net pension liability		(11,050)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest decreased.</p>		
		<u>80</u>
Net change in net position of governmental activities		<u>\$ (17,385)</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 474,086	\$ 340,042	\$ 350,763	\$ 854,774	\$ 2,019,665
Receivables:					
Accounts receivable	37,449	17,139	30,356	155,024	239,968
Due from other funds				76,991	76,991
Supplies	11,284	1,350	-	-	12,634
Total current assets	<u>522,819</u>	<u>358,531</u>	<u>381,119</u>	<u>1,086,789</u>	<u>2,349,258</u>
Capital Assets-being depreciated					
Buildings and improvements	1,820,528	3,263,840	59,639	242,609	5,386,616
Equipment and vehicles	173,072	40,416	363,680	403,200	980,368
Less: Accum. depreciation	(997,350)	(1,486,351)	(232,672)	(533,711)	(3,250,084)
Net capital assets	<u>996,250</u>	<u>1,817,905</u>	<u>190,647</u>	<u>112,098</u>	<u>3,116,900</u>
TOTAL ASSETS	<u>1,519,069</u>	<u>2,176,436</u>	<u>571,766</u>	<u>1,198,887</u>	<u>5,466,158</u>
DEFERRED OUTFLOWS OF RESOURCES					
Cost sharing defined benefit pension plan-NDPERS	<u>4,368</u>	<u>4,205</u>	<u>17,417</u>	<u>34,666</u>	<u>60,656</u>
LIABILITIES					
Current					
Accounts payable	207	406	6,319	76,059	82,991
Accrued salaries	5,027	156	681	914	6,778
Payroll taxes	447	-	158	-	605
Deposits	-	-	-	25,902	25,902
Bonds payable-Current portion	-	25,000	-	-	25,000
Total current liabilities	<u>5,681</u>	<u>25,562</u>	<u>7,158</u>	<u>102,875</u>	<u>141,276</u>
Long-Term					
Bonds payable-Long-term portion	-	285,000	-	-	285,000
Net pension liability	17,306	16,658	69,002	137,338	240,304
Total long-term liabilities	<u>17,306</u>	<u>301,658</u>	<u>69,002</u>	<u>137,338</u>	<u>525,304</u>
TOTAL LIABILITIES	<u>22,987</u>	<u>327,220</u>	<u>76,160</u>	<u>240,213</u>	<u>666,580</u>
DEFERRED INFLOWS OF RESOURCES					
Cost sharing defined benefit pension plan-NDPERS	<u>3,420</u>	<u>3,292</u>	<u>13,637</u>	<u>27,142</u>	<u>47,491</u>
NET POSITION					
Net Investment in Capital Assets	996,250	1,507,905	190,647	112,098	2,806,900
Unrestricted	500,780	342,224	308,739	854,100	2,005,843
TOTAL NET POSITION	<u>\$ 1,497,030</u>	<u>\$ 1,850,129</u>	<u>\$ 499,386</u>	<u>\$ 966,198</u>	<u>\$ 4,812,743</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
Operating Revenues:					
Charges for services	\$ 366,311	\$ 165,303	\$ 342,608	\$ 1,362,539	\$ 2,236,761
Operating Expenses:					
Salaries	18,243	17,566	80,843	144,270	260,922
Employee benefits	10,462	9,508	76,342	106,133	202,445
Property and liability insurance	1,343	1,353	2,540	2,623	7,859
Power purchased	-	-	-	667,034	667,034
Water purchased	133,987	-	-	-	133,987
Supplies	1,980	2,776	3,745	107,616	116,117
Chemicals	-	3,745	-	-	3,745
Purchased services	-	-	61,505	-	61,505
Repairs	73	4,356	11,376	3,294	19,099
Gas and oil	440	821	10,283	1,673	13,217
Other administrative expenses	17,259	4,125	5,765	3,061	30,210
Other production expense	21,625	3,097	-	119,691	144,413
Professional fees	5,509	4,024	2,416	3,448	15,397
Depreciation	35,992	82,724	29,390	11,482	159,588
Total operating expenses	<u>246,913</u>	<u>134,095</u>	<u>284,205</u>	<u>1,167,916</u>	<u>1,833,129</u>
Operating Income	<u>119,398</u>	<u>31,208</u>	<u>58,403</u>	<u>194,623</u>	<u>403,632</u>
Non Operating Revenues (Expenses)					
Interest earnings	445	255	206	1,014	1,920
Other revenues	907	-	2,983	14,207	18,097
Total non operating revenues (expenses)	<u>1,352</u>	<u>255</u>	<u>3,039</u>	<u>15,221</u>	<u>19,867</u>
Transfers:					
In	-	25,000	-	-	25,000
Out	(71,656)	(36,971)	(82,852)	(242,500)	(433,979)
Net operating transfers	<u>(71,656)</u>	<u>(11,971)</u>	<u>(82,852)</u>	<u>(242,500)</u>	<u>(408,979)</u>
Net Income (Loss)	49,094	19,492	(21,410)	(32,656)	14,520
Net Position, Beginning of Year	<u>1,447,936</u>	<u>1,830,637</u>	<u>520,796</u>	<u>998,854</u>	<u>4,798,223</u>
Net Position, End of Year	<u>\$ 1,497,030</u>	<u>\$ 1,850,129</u>	<u>\$ 499,386</u>	<u>\$ 966,198</u>	<u>\$ 4,812,743</u>

See Notes to the Financial Statements

CITY OF CAVALIER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Electric</u>	<u>Total</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES					
Cash received from customers	\$ 366,311	\$ 165,303	\$ 342,608	\$ 1,362,539	\$ 2,236,761
Cash payments to suppliers	(193,094)	(34,400)	(149,993)	(969,230)	(1,346,717)
Cash paid to employees	(18,243)	(17,566)	(80,843)	(144,270)	(260,922)
Net cash flow from operating activities	<u>154,974</u>	<u>113,337</u>	<u>111,772</u>	<u>249,039</u>	<u>629,122</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES					
Operating transfers in from other funds	-	25,000	-	-	25,000
Operating transfers out to other funds	(71,656)	(36,971)	(82,852)	(242,500)	(433,979)
Net cash flow from non-capital financing activities	<u>(71,656)</u>	<u>(11,971)</u>	<u>(82,852)</u>	<u>(242,500)</u>	<u>(408,979)</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES					
Miscellaneous revenues	907	-	2,983	14,207	18,097
Payment on Long-term borrowing	-	(25,000)	-	-	(25,000)
Net cash flow from capital and related financing activities	<u>907</u>	<u>(25,000)</u>	<u>2,833</u>	<u>14,207</u>	<u>(7,053)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES					
Collection of notes receivable	1,685	-	-	-	1,685
Cash received on loan to other funds	-	-	-	24,324	24,324
Interest earnings	445	255	206	1,014	1,920
Net cash flow from investing activities	<u>2,130</u>	<u>255</u>	<u>206</u>	<u>25,338</u>	<u>27,929</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,355	76,621	31,959	46,084	241,019
CASH AND CASH EQUIVALENTS, JANUARY 1, 2016	387,731	263,421	318,804	808,690	1,778,646
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2016	\$ 474,086	\$ 340,042	\$ 350,763	\$ 854,774	\$ 2,019,665
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income	\$ 119,398	\$ 31,208	\$ 58,403	\$ 194,623	\$ 403,632
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	35,992	82,724	29,390	11,482	159,588
Changes in assets and liabilities					
(Increase)/Decrease in deferred outflows of resources	(1,140)	(977)	(9,276)	(16,429)	(27,822)
Increase/(Decrease) in accounts payable	(1,105)	(72)	(217)	6,741	5,347
Increase/(Decrease) in accrued salaries	152	-	-	-	152
Increase/(Decrease) in payroll taxes	447	-	-	-	447
Increase/(Decrease) in customer deposits	-	-	-	(1,719)	(1,719)
Increase/(Decrease) in deferred inflows of resources	(210)	(338)	4,482	6,634	10,568
Increase/(Decrease) in net pension liability	1,440	792	28,990	47,707	78,929
Net cash provided (used) by operating activities	<u>\$ 154,974</u>	<u>\$ 113,337</u>	<u>\$ 111,772</u>	<u>\$ 249,039</u>	<u>\$ 629,122</u>

See Notes to the Financial Statements

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

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

Governmental Funds

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Measurement Focus and Basis of Accounting

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

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

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

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

Cash and Equivalents

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

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

Fair Value Measurements

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

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Revenues

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

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

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

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

Property Taxes

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

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

Unearned Revenues

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Deferred Outflows/Inflows of Resources

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

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

Inventory

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

Capital Assets

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

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

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Long-Term Debt

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

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

Compensated Absences

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

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

Net Position

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

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

Fund Balance

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

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

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

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

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

Minimum Fund Balance Policy

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

Encumbrances

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

Estimates

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

Significant Group Concentrations of Credit Risk

As of December 31, 2016, the City's receivables consist of amounts owed from the local area businesses and individuals for utility services. The City does not require collateral or other security.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Inter-fund Activity

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

Pensions

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interest Rate Risk

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

Credit Risk

State statutes authorize local governments to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities Capital Assets:				
Non Depreciable				
Land	\$ 273,222	\$ -	\$ -	\$ 273,222
Depreciable				
Buildings and improvements	514,291	94,275	8,004	600,562
Equipment and vehicles	1,341,066	16,688	-	1,357,754
Infrastructure	5,027,566	-	-	5,027,566
Total Gov't Activities Capital Assets	<u>7,156,145</u>	<u>110,963</u>	<u>8,004</u>	<u>7,259,104</u>
Accumulated Depreciation				
Buildings and improvements	270,566	12,575	4,888	278,253
Equipment and vehicles	784,221	110,229	-	894,450
Infrastructure	745,445	138,168	-	883,613
Total Accumulated Depreciation	<u>1,800,232</u>	<u>260,972</u>	<u>4,888</u>	<u>2,056,316</u>
Net Capital Assets - Gov't Activities	<u>\$ 5,355,913</u>	<u>\$ (150,009)</u>	<u>\$ 3,116</u>	<u>\$ 5,202,788</u>

Changes in capital assets for the business-type activities for the year ended December 31, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-Type Activities Capital Assets:				
Water				
Buildings and improvements	\$ 1,820,528	\$ -	\$ -	\$ 1,820,528
Equipment and vehicles	173,072			173,072
Total Water Capital Assets	<u>1,993,600</u>			<u>1,993,600</u>
Water Accum. Depreciation				
Buildings and improvements	909,127	27,661		936,788
Equipment and vehicles	52,231	8,331		60,562
Total Water Accum Dep.	<u>961,358</u>	<u>35,992</u>		<u>997,350</u>
Net Capital Assets - Water	<u>\$ 1,032,242</u>	<u>\$ (35,992)</u>	<u>\$ -</u>	<u>\$ 996,250</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	Beginning Balance	Additions	Disposals	Ending Balance
Sewer				
Buildings and improvements	\$ 3,263,840	\$ -	\$ -	\$ 3,263,840
Equipment and vehicles	40,416			40,416
Total Sewer Capital Assets	<u>3,304,256</u>			<u>3,304,256</u>
Sewer Accum. Depreciation				
Buildings and improvements	1,375,123	80,077		1,455,200
Equipment and vehicles	28,504	2,647		31,151
Total Sewer Accum Dep.	<u>1,403,627</u>	<u>82,724</u>		<u>1,486,351</u>
Net Capital Assets - Sewer	<u>\$ 1,900,629</u>	<u>\$ (82,724)</u>	<u>\$ -</u>	<u>\$ 1,817,905</u>
Sanitation				
Buildings and improvements	\$ 59,639	\$ -	\$ -	\$ 59,639
Equipment and vehicles	363,680			363,680
Total Sanitation Capital Assets	<u>423,319</u>			<u>423,319</u>
Sanitation Accum. Depreciation				
Buildings and improvements	23,146	1,871		25,017
Equipment and vehicles	180,136	27,519		207,655
Total Sanitation Accum Dep.	<u>203,282</u>	<u>29,390</u>		<u>232,672</u>
Net Capital Assets - Sanitation	<u>\$ 220,037</u>	<u>\$ (29,390)</u>	<u>\$ -</u>	<u>\$ 190,647</u>
Electric				
Buildings and improvements	\$ 242,609	\$ -	\$ -	\$ 242,609
Equipment and vehicles	403,200	-	-	403,200
Total Electric Capital Assets	<u>645,809</u>	<u>-</u>	<u>-</u>	<u>645,809</u>
Electric Accum. Depreciation				
Buildings and improvements	239,833	235	-	240,068
Machinery and equipment	282,396	11,247	-	293,643
Total Electric Accum Dep.	<u>522,229</u>	<u>11,482</u>	<u>-</u>	<u>533,711</u>
Net Capital Assets - Electric	<u>\$ 123,580</u>	<u>\$ (11,482)</u>	<u>\$ -</u>	<u>\$ 112,098</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Governmental Activities	
General government	\$ 115,067
Public safety	57,364
Highways and streets	38,269
Other	<u>50,272</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 260,972</u>
Business-Type Activities	
Water	\$ 35,992
Sewer	82,724
Sanitation	29,390
Electric	<u>11,482</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 159,588</u>

NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in the governmental activities long-term debt by individual issue for the year ended December 31, 2016:

GOVERNMENTAL FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-15	New Issues	Retired	Other Adjustment	Balance 12-31-16	Due within One Year
Scott & Lynda Humble-contract for deed	2%	7/1/20	\$ -	\$ 94,275	\$ 18,116	\$ -	\$ 76,159	\$ 18,478
Kinetic Leasing	2.65%	8/15/18	87,437	-	28,386	-	59,051	29,138
\$2,025,000 Refunding Improvement Bonds of 2013	.5-3.75%	5/1/38	1,890,000	-	65,000	-	1,825,000	65,000
\$1,555,000 Refunding Improvement Bonds of 2014	.95-3.1%	5/1/29	1,460,000	-	90,000	-	1,370,000	95,000
\$194,000 Refunding Improvement Bonds of 2014B	1.80%	5/1/21	162,893	-	29,542	-	133,351	28,949
Net Pension Liability-Main			225,821	-	-	(13,765)	212,056	-
Net Pension Liability-Law Enforcement			42,670	-	-	24,815	67,485	-
			<u>\$ 3,868,821</u>	<u>\$ 94,275</u>	<u>\$ 231,044</u>	<u>\$ 11,050</u>	<u>\$ 3,743,102</u>	<u>\$ 236,565</u>
ENTERPRISE FUNDS								
Issue	Interest Rate	Maturity Date	Balance 12-31-15	New Issues	Retired	Other Adjustment	Balance 12-31-16	Due within One Year
North Dakota State Revolving Fund Lift Station Improvement District	0.50%	9/1/28	\$ 335,000	\$ -	\$ 25,000	\$ -	\$ 310,000	\$ 25,000
Net Pension Liability-Main			161,375	-	-	78,929	240,304	-
			<u>\$ 496,375</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 78,929</u>	<u>\$ 550,304</u>	<u>\$ 25,000</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

\$194,000 Refunding Improvement				\$2,025,000 Refunding Improvement			
	Principal	Interest	Total		Principal	Interest	Total
2017	\$ 28,949	\$ 2,140	\$ 31,089	2017	\$ 65,000	\$ 53,205	\$ 118,205
2018	28,345	1,625	29,970	2018	65,000	52,230	117,230
2019	27,668	1,121	28,789	2019	65,000	51,255	116,255
2020	31,978	583	32,561	2020	65,000	50,280	115,280
2021	16,411	148	16,559	2021	70,000	46,058	116,058
2022-2026	-	-	-	2022-2026	360,000	222,690	582,690
	-	-	-	2027-2031	420,000	169,350	589,350
	-	-	-	2032-2036	490,000	89,438	579,438
	-	-	-	2037-2039	225,000	8,531	233,531
	\$ 133,351	\$ 5,617	\$ 138,968		\$ 1,825,000	\$ 743,037	\$ 2,568,037

\$1,555,000 Refunding Improvement				Kinetic Leasing			
	Principal	Interest	Total		Principal	Interest	Total
2017	\$ 95,000	\$ 32,149	\$ 127,149	2017	\$ 29,138	\$ 1,565	\$ 30,703
2018	95,000	30,843	125,843	2018	29,913	793	30,706
2019	95,000	29,133	124,133				
2020	100,000	27,378	127,378				
2021	100,000	25,303	125,303				
2022-2026	530,000	88,399	618,399				
2027-2030	355,000	16,188	371,188				
	\$ 1,370,000	\$ 249,393	\$ 1,619,393		\$ 59,051	\$ 2,358	\$ 61,409

Scott & Lynda Humble				Lift Station Improvement Bond			
	Principal	Interest	Total		Principal	Interest	Total
2017	\$ 18,478	\$ 1,523	\$ 20,001	2017	\$ 25,000	\$ 1,550	\$ 26,550
2018	18,848	1,154	20,002	2018	25,000	1,425	26,425
2019	19,225	777	20,002	2019	25,000	1,300	26,300
2020	19,608	392	20,000	2020	25,000	1,175	26,175
				2021	25,000	1,050	26,050
				2022-2026	125,000	3,375	128,375
				2027-2028	60,000	450	60,450
	\$ 76,159	\$ 3,846	\$ 80,005		\$ 310,000	\$ 10,325	\$ 320,325

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

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

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At December 31, 2016, the City reported a liability of \$452,360 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the City's proportion was 0.046415 percent which was a decrease of .010527 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$77,704. The City has elected to pay the employer and employee portion of the retirement contribution. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,795	\$ 4,188
Changes in assumptions	41,702	22,473
Net difference between projected and actual earnings on pension plan investments	63,111	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,572	62,737
Employer contributions subsequent to the measurement date	19,340	-
	<u>\$ 133,520</u>	<u>\$ 89,398</u>

\$19,340 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017.

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

<u>Year ending June 30</u>	<u>Pension Expense Amount</u>
2017	\$ 3,036
2018	3,036
2019	16,803
2020	6,358
2021	(4,451)

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 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:

	<u>1% Decrease in Discount rate-7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase in Discount Rate-9%</u>
Employer's proportionate share of the net pension liability	<u>\$ 641,663</u>	<u>\$ 452,360</u>	<u>\$ 292,861</u>

Pension Plan Fiduciary Net Position

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

NDPERS Law Enforcement Retirement System (Law Enforcement System)

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

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55) with three or more years of service. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

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

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	10.31%
National Guard (effective 8/1/2015)*	6.00%	9.81%
Law Enforcement without previous service	5.50%	7.93%

*Effective 1/1/2016, the member contribution rate for the National Guard will be 5.50%

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

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
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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

At December 31, 2016, the Employer reported a liability of \$67,485 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At June 30, 2016, the Employer's proportion was .588958 percent which was a decrease of .113367 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Employer recognized pension expense of \$24,362. At December 31, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,687	\$ -
Changes in assumptions	2,341	4,547
Net difference between projected and actual earnings on pension plan investments	12,436	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	23,524
Employer contributions subsequent to the measurement date	6,878	-
	<u>\$ 45,342</u>	<u>\$ 28,071</u>

\$6,878 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR 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:

<u>Year ending June 30</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 747
2018	981
2019	3,251
2020	2,080
2021	3,334

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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:

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	6.90%
International Equity	21.00%	7.55%
Private Equity	5.00%	11.30%
Domestic Fixed Income	17.00%	1.52%
International Fixed Inc.	5.00%	0.45%
Global Real Assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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:

	<u>1% Decrease in Discount rate-7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase in Discount Rate-9%</u>
Employer's proportionate share of the net pension liability	\$ <u>110,773</u>	\$ <u>67,485</u>	\$ <u>31,762</u>

Pension Plan Fiduciary Net Position

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

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

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - INTERFUND TRANSFERS AND BALANCES

Schedule of transfers

Transfers In

General	\$ 614,893
Special Revenue-Growth	50,000
Special Revenue-Advertising	616
Special Revenue-Social Security	22,455
Special Revenue-Pension	45,845
Special Revenue-Insurance	8,223
Special Revenue-Emergency	2,000
Debt Service-2013 Utility	8,627
Street Improvement	40,000
Capital Projects	100,000
Proprietary Fund-Sewer	25,000
	<u>\$ 917,659</u>

Transfers Out

General Fund	\$ 269,140
Special Revenue-Highway Tax	100,000
Special Revenue-Public Building Construction	80,358
Special Revenue-Recreation	5,000
Special Revenue-Library	4,000
Debt Service-Lift Station	25,000
Debt Service-1998 Issue	182
Proprietary Fund-Water	71,656
Proprietary Fund-Sewer	36,971
Proprietary Fund-Sanitation	82,852
Proprietary Fund-Electric	242,500
	<u>\$ 917,659</u>

These transfers consist of a 20% revenue transfer from each enterprise fund (water, sewer, garbage and electric) into the general fund; a transfer from the recreation department and library into the general fund for salaries and other costs; a transfer from the general fund into the growth fund for economic development; transfer from the general fund to the pension fund for pension costs, transfer from the general fund to the social security, advertising, and insurance for costs and to close these funds due to the repeal of the tax levies associated with these funds, transfer from highway tax fund to capital projects for streets and highways and transfers from each enterprise fund into the general fund for insurance premiums and other costs.

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

The interfund receivables and payables consist of the following:

Governmental Funds	
Due from Other Funds	Amount
Electric	<u>\$ 76,991</u>

Due to Other Funds	
Special Revenue -Growth fund	<u>\$ 76,991</u>

The Electric fund advanced funds to the Growth Fund for the Hartz land purchase.

NOTE 8 – FUND BALANCES

Fund balance is categorized as follows:

Fund Balance	General	Capital Projects	Special Revenue Fire	Debt Service Funds		Other Governmental Funds	Total
				2013 Utility Improvement	Street Improvement		
Non Spendable							
Inventory-supplies	\$ 3,397	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,397
Loans receivable	-	-	-	-	-	17,068	17,068
Total nonspendable	<u>3,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,068</u>	<u>20,465</u>
Restricted							
Debt service	-	-	-	241,289	190,765	197,916	629,970
Improvements	-	630,126	-	-	-	-	630,126
Lodging tax	-	-	-	-	-	5,038	5,038
Special assessments	-	-	-	-	-	1,739	1,739
Jobs development	-	-	-	-	-	22,722	22,722
Highway tax	-	-	-	-	-	37,810	37,810
Cemetery	-	-	-	-	-	95,870	95,870
Library	-	-	-	-	-	26,012	26,012
Airport Authority	-	-	-	-	-	203,440	203,440
Growth	-	-	-	-	-	107,391	107,391
Forestry	-	-	-	-	-	1,989	1,989
Total restricted	<u>-</u>	<u>630,126</u>	<u>-</u>	<u>241,289</u>	<u>190,765</u>	<u>699,927</u>	<u>1,762,107</u>
Committed							
Fleet reserves	-	-	-	-	-	2,008	2,008
Emergency	-	-	-	-	-	8,746	8,746
Recreation	-	-	-	-	-	122,819	122,819
Fire department	-	-	172,906	-	-	-	172,906
Beautification	-	-	-	-	-	8,991	8,991
Total committed	<u>-</u>	<u>-</u>	<u>172,906</u>	<u>-</u>	<u>-</u>	<u>142,564</u>	<u>315,470</u>
Unassigned	<u>969,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>969,854</u>
Total Fund Balance	<u>\$ 973,251</u>	<u>\$ 630,126</u>	<u>\$ 172,906</u>	<u>\$ 241,289</u>	<u>\$ 190,765</u>	<u>\$ 859,559</u>	<u>\$ 3,067,896</u>

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several new statements, some of which have not been implemented by the City.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this

CITY OF CAVALIER
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

CITY OF CAVALIER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenue:				
Property taxes	\$ 137,658	\$ 136,658	\$ 132,276	\$ (4,382)
Sales and use taxes	362,000	362,000	360,318	(1,682)
Licenses, permits and fees	5,750	5,750	8,375	2,625
Intergovernmental revenues	136,240	136,240	82,017	(54,223)
Charges for services	12,000	12,000	9,148	(2,852)
Fines and forfeits	1,500	1,500	2,588	1,088
Miscellaneous revenues	14,800	15,800	16,469	669
	<u>669,948</u>	<u>669,948</u>	<u>611,191</u>	<u>(58,757)</u>
Total revenues				
Expenditures:				
Current:				
General government	297,841	297,841	242,396	55,445
Public safety	231,944	231,944	220,612	11,332
Highways and streets	178,762	178,762	145,375	33,387
Health and welfare	97,000	97,000	95,181	1,819
Culture and recreation	83,945	83,945	80,266	3,679
Capital outlay	19,297	19,297	16,688	2,609
Debt service	30,703	30,703	30,703	-
	<u>939,492</u>	<u>939,492</u>	<u>831,221</u>	<u>108,271</u>
Total expenditures				
Excess of Revenues Over (Under)				
Expenditures	<u>(269,544)</u>	<u>(269,544)</u>	<u>(220,030)</u>	<u>49,514</u>
Other Financing Sources (Uses):				
Sale of fixed assets			250	250
Operating transfers in	524,000	524,000	614,893	90,893
Operating transfers out	(421,529)	(421,529)	(269,140)	152,389
	<u>102,471</u>	<u>102,471</u>	<u>346,003</u>	<u>243,532</u>
Total other financing sources (uses)				
Excess of Revenues and Other Sources (Uses)				
Over (Under) Expenditures and Other Uses	(167,073)	(167,073)	125,973	293,046
Fund Balance (Deficit), Beginning of Year	<u>847,278</u>	<u>847,278</u>	<u>847,278</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ 680,205</u>	<u>\$ 680,205</u>	<u>\$ 973,251</u>	<u>\$ 293,046</u>

See Note to the Budgetary Comparison Schedule

CITY OF CAVALIER
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 BUDGETARY COMPARISON

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

The preliminary budget shall set forth specifically:

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

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

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

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

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

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

Main System

For The Year Ended <u>December 31</u>	City's Proportion of the Net Pension <u>Liability (Asset)</u>	City's Proportionate Share of the Net Pension <u>Liability (Asset)</u>	City's Covered Employee <u>Payroll</u>	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee <u>Payroll</u>	Plan Fiduciary Net Position as a Percentage of the <u>Total Pension Liability</u>
2015	0.056942%	\$ 387,196	\$ 507,286	76.33%	77.15%
2016	0.046415%	452,360	467,758	96.70%	70.46%

Law Enforcement

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

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

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

See Note to the Required Supplementary Information

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

Main System

For The Year Ended <u>December 31</u>	Statutorily Required <u>Contribution</u>	Contributions in Relation to the Statutorily Required <u>Contributions</u>	Contribution <u>Deficiency (Excess)</u>	City's Covered-employee <u>Payroll</u>	Contributions as a Percentage of Covered <u>Employee Payroll</u>
2015	\$ 38,532	\$ 38,532	\$ -	\$ 507,286	7.60%
2016	33,865	33,865	-	467,758	7.61%

Law Enforcement

For The Year Ended <u>December 31</u>	Statutorily Required <u>Contribution</u>	Contributions in Relation to the Statutorily Required <u>Contributions</u>	Contribution <u>Deficiency (Excess)</u>	City's Covered-employee <u>Payroll</u>	Contributions as a Percentage of Covered <u>Employee Payroll</u>
2015	\$ 11,117	\$ 11,117	\$ -	\$ 102,937	9.81%
2016	14,041	14,041	-	166,239	9.35%

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

See Note to the Required Supplementary Information

CITY OF CAVALIER
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 CHANGES OF ASSUMPTIONS

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31,2016

	Special Revenue Funds	Debt Service Funds	Total Non Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 625,150	\$ 197,916	\$ 823,066
Investments	91,189	-	91,189
Receivables:			
Accounts receivable	8,468	-	8,468
Taxes receivable	1,162	-	1,162
Special assessments	-	347,221	347,221
Loans receivable	17,068	-	17,068
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 743,037</u></u>	<u><u>\$ 545,137</u></u>	<u><u>\$ 1,288,174</u></u>
 Liabilities, Deferred Inflows of Resources and Fund Balance:			
Liabilities:			
Accounts payable	\$ 3,241	\$ -	\$ 3,241
Due to other funds	76,991	-	76,991
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u><u>80,232</u></u>	<u><u>-</u></u>	<u><u>80,232</u></u>
 Deferred Inflows of Resources			
Unavailable property taxes receivable	1,162	-	1,162
Delinquent special assessments	-	12,633	12,633
Uncertified special assessments	-	334,588	334,588
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u><u>1,162</u></u>	<u><u>347,221</u></u>	<u><u>348,383</u></u>
 Fund Balance:			
Nonspendable	17,068	-	17,068
Restricted	502,011	197,916	699,927
Committed	142,564	-	142,564
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u><u>661,643</u></u>	<u><u>197,916</u></u>	<u><u>859,559</u></u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u><u>\$ 743,037</u></u>	 <u><u>\$ 545,137</u></u>	 <u><u>\$ 1,288,174</u></u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds	Debt Service Funds	Total Non Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 95,322	\$ -	\$ 95,322
Special assessments	-	54,246	54,246
Intergovernmental	85,864	-	85,864
Charges for services	44,581	-	44,581
Other	38,660	-	38,660
	<u>264,427</u>	<u>54,246</u>	<u>318,673</u>
Total revenues			
Expenditures:			
Current:			
General government	116,173	-	116,173
Public safety	-	-	-
Culture and recreation	50,498	-	50,498
Capital outlay	94,275	-	94,275
Other	108,777	-	108,777
Debt Service:			
Debt principal	18,116	29,542	47,658
Interest	1,886	4,341	6,227
Fiscal charges	-	2,125	2,125
	<u>389,725</u>	<u>36,008</u>	<u>425,733</u>
Total expenditures			
Excess of Revenues Over (Under) Expenditures	(125,298)	18,238	(107,060)
Other Financing Sources (Uses):			
Sale of capital assets	20,587	-	20,587
Proceeds from issuance of debt	94,275	-	94,275
Operating transfers in	129,139	-	129,139
Operating transfers out	(189,358)	(25,182)	(214,540)
	<u>54,643</u>	<u>(25,182)</u>	<u>29,461</u>
Total other financing sources (uses)			
Excess of Revenues Over (Under) Expenditures and Other Financing Sources	<u>(70,655)</u>	<u>(6,944)</u>	<u>(77,599)</u>
Fund Balance, Beginning of Year	<u>732,298</u>	<u>204,860</u>	<u>937,158</u>
Fund Balance, End of Year	<u>\$ 661,643</u>	<u>\$ 197,916</u>	<u>\$ 859,559</u>

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2016

	Special Assessments	Jobs Development Authority	Highway Tax	Lodging Tax	Fleet Reserves	Emergency
Assets:						
Cash and cash equivalents	\$ 1,739	\$ 22,722	\$ 29,807	\$ 4,573	\$ 2,008	\$ 8,746
Investments	-	-	-	-	-	-
Accounts receivable	-	-	8,003	465	-	-
Taxes receivable	-	214	-	-	-	-
Loans receivable	-	-	-	-	-	-
Total Assets	\$ 1,739	\$ 22,936	\$ 37,810	\$ 5,038	\$ 2,008	\$ 8,746
Liabilities, Deferred Inflows and Fund Balance						
Liabilities:						
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-
Deferred Inflows of Resources						
Unavailable property taxes receivable	-	214	-	-	-	-
Fund Balance						
Nonspendable	-	-	-	-	-	-
Restricted	1,739	22,722	37,810	5,038	-	-
Committed	-	-	-	-	2,008	8,746
Unassigned	-	-	-	-	-	-
Total fund balance	1,739	22,722	37,810	5,038	2,008	8,746
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,739	\$ 22,936	\$ 37,810	\$ 5,038	\$ 2,008	\$ 8,746

CITY OF CAVALIER
COMBINING BALANCE SHEET - CONTINUED
NONMAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31,2016

<u>Cemetery</u>	<u>Recreation</u>	<u>Library</u>	<u>Airport Authority</u>	<u>Growth</u>	<u>Beautification</u>	<u>Forestry</u>	<u>Total Non Major Special Revenue Funds</u>
\$ 4,681	\$ 125,960	\$ 26,112	\$ 203,440	\$ 184,382	\$ 8,991	\$ 1,989	\$ 625,150
91,189	-	-	-	-	-	-	91,189
-	-	-	-	-	-	-	8,468
157	197	315	279	-	-	-	1,162
-	-	-	-	17,068	-	-	17,068
<u>\$ 96,027</u>	<u>\$ 126,157</u>	<u>\$ 26,427</u>	<u>\$ 203,719</u>	<u>\$ 201,450</u>	<u>\$ 8,991</u>	<u>\$ 1,989</u>	<u>\$ 743,037</u>
\$ -	\$ -	\$ -	\$ -	\$ 76,991	\$ -	\$ -	\$ 76,991
-	3,141	100	-	-	-	-	3,241
-	3,141	100	-	76,991	-	-	80,232
157	197	315	279	-	-	-	1,162
-	-	-	-	17,068	-	-	17,068
95,870	-	26,012	203,440	107,391	-	1,989	502,011
-	122,819	-	-	-	8,991	-	142,564
-	-	-	-	-	-	-	-
<u>95,870</u>	<u>122,819</u>	<u>26,012</u>	<u>203,440</u>	<u>124,459</u>	<u>8,991</u>	<u>1,989</u>	<u>661,643</u>
<u>\$ 96,027</u>	<u>\$ 126,157</u>	<u>\$ 26,427</u>	<u>\$ 203,719</u>	<u>\$ 201,450</u>	<u>\$ 8,991</u>	<u>\$ 1,989</u>	<u>\$ 743,037</u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Assessments	Advertising	Public Building Construction	Jobs Development Authority	Highway Tax	Social Security	Lodging Tax	Fleet Reserves	Emergency
Revenues:									
Taxes	\$ 12,349	\$ 90	\$ 438	\$ 7,954	\$ -	\$ 2,758	\$ 5,038	\$ -	\$ 2,018
Intergovernmental					83,907		-	-	-
Charges for services							-	-	-
Other							-	-	-
Total revenues	12,349	90	438	7,954	83,907	2,758	5,038	-	2,018
Expenditures:									
Current:									
General government		1,981				36,581	-	-	-
Public safety							-	-	-
Culture and recreation							-	-	-
Capital outlay							-	-	-
Other	9,347		18,798	2,551			-	-	-
Debt Service:									
Principal retirement							-	-	-
Interest							-	-	-
Total expenditures	9,347	1,981	18,798	2,551		36,581	-	-	-
Excess Revenues Over (Under) Expenditures	3,002	(1,891)	(18,360)	5,403	83,907	(33,823)	5,038	-	2,018
Other Financing Sources (Uses)									
Proceeds from debt issuance							-	-	-
Sale of capital assets							-	-	-
Operating transfers in		616				22,455	-	-	2,000
Operating transfers out			(80,358)		(100,000)		-	-	-
Total other financing sources (uses)		616	(80,358)		(100,000)	22,455	-	-	2,000
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	3,002	(1,275)	(98,718)	5,403	(16,093)	(11,368)	5,038	-	4,018
Fund Balance (Deficit), Beginning of Year	(1,263)	1,275	98,718	17,319	53,903	11,368	-	2,008	4,728
Fund Balance (Deficit), End of Year	\$ 1,739	\$ -	\$ -	\$ 22,722	\$ 37,810	\$ -	\$ 5,038	\$ 2,008	\$ 8,746

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – CONTINUED
NONMAJOR SPECIAL REVENUE FUNDS
AS OF DECEMBER 31,2016

Cemetery	Employee Pension	Insurance	Recreation	Library	Airport Authority	Growth	Beautification	Forestry	Total Special Revenue Funds
\$ 5,378	\$ 447	\$ 448	\$ 6,742	\$ 25,282	\$ 26,377	\$ -	\$ -	\$ 3	\$ 95,322
-	-	-	-	-	1,957	-	-	-	85,864
-	-	-	35,683	1,675	7,223	-	-	-	44,581
7,586	-	122	8,360	1,481	9,305	10,655	1,151	-	38,660
<u>12,964</u>	<u>447</u>	<u>570</u>	<u>50,785</u>	<u>28,438</u>	<u>44,862</u>	<u>10,655</u>	<u>1,151</u>	<u>3</u>	<u>264,427</u>
-	58,141	17,679	-	-	-	-	1,791	-	116,173
-	-	-	-	-	-	-	-	-	-
-	-	-	31,397	19,101	-	-	-	-	50,498
-	-	-	-	94,275	-	-	-	-	94,275
11,600	-	-	-	-	40,923	25,558	-	-	108,777
-	-	-	-	18,116	-	-	-	-	18,116
-	-	-	-	1,886	-	-	-	-	1,886
<u>11,600</u>	<u>58,141</u>	<u>17,679</u>	<u>31,397</u>	<u>133,378</u>	<u>40,923</u>	<u>25,558</u>	<u>1,791</u>	<u>-</u>	<u>389,725</u>
1,364	(57,694)	(17,109)	19,388	(104,940)	3,939	(14,903)	(640)	3	(125,298)
-	-	-	-	94,275	-	-	-	-	94,275
-	-	-	-	20,587	-	-	-	-	20,587
-	45,845	8,223	-	-	-	50,000	-	-	129,139
-	-	-	(5,000)	(4,000)	-	-	-	-	(189,358)
<u>-</u>	<u>45,845</u>	<u>8,223</u>	<u>(5,000)</u>	<u>110,862</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>54,643</u>
1,364	(11,849)	(8,886)	14,388	5,922	3,939	35,097	(640)	3	(70,655)
<u>94,506</u>	<u>11,849</u>	<u>8,886</u>	<u>108,431</u>	<u>20,090</u>	<u>199,501</u>	<u>89,362</u>	<u>9,631</u>	<u>1,986</u>	<u>732,298</u>
<u>\$ 95,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,819</u>	<u>\$ 26,012</u>	<u>\$ 203,440</u>	<u>\$ 124,459</u>	<u>\$ 8,991</u>	<u>\$ 1,989</u>	<u>\$ 661,643</u>

CITY OF CAVALIER
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
AS OF DECEMBER 31,2016

	<u>Pines Street</u>	<u>Lift Station Improvement</u>	<u>Total Non Major Debt Service Funds</u>
Assets:			
Cash and cash equivalents	\$ 61,057	\$ 136,859	\$ 197,916
Receivables:			
Special assessments	<u>120,471</u>	<u>226,750</u>	<u>347,221</u>
Total Assets	<u>\$ 181,528</u>	<u>\$ 363,609</u>	<u>\$ 545,137</u>
 Liabilities, Deferred Inflows of Resources and Fund Balance:			
Deferred Inflows of resources			
Delinquent special assessments	\$ 11,081	\$ 1,552	\$ 12,633
Uncertified special assessments	<u>109,390</u>	<u>225,198</u>	<u>334,588</u>
Total Deferred Inflows of Resources	<u>120,471</u>	<u>226,750</u>	<u>347,221</u>
 Fund Balance:			
Restricted for debt service	<u>61,057</u>	<u>136,859</u>	<u>197,916</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 181,528</u>	<u>\$ 363,609</u>	<u>\$ 545,137</u>

CITY OF CAVALIER
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31,2016

	<u>1998 Issue</u>	<u>Pines Street</u>	<u>Lift Station Improvement</u>	<u>Total Non major Debt Service Funds</u>
Revenues:				
Special assessments	\$ 182	\$ 30,248	\$ 23,816	\$ 54,246
Total revenues	<u>182</u>	<u>30,248</u>	<u>23,816</u>	<u>54,246</u>
Expenditures:				
Debt Service:				
Bond principal	-	29,542	-	29,542
Bond interest	-	2,666	1,675	4,341
Fiscal charges	-	450	1,675	2,125
Total expenditures	<u>-</u>	<u>32,658</u>	<u>3,350</u>	<u>36,008</u>
Excess of Revenues Over (Under) Expenditures	182	(2,410)	20,466	18,238
Other Financing Sources (Uses):				
Operating transfers out	<u>(182)</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,182)</u>
Total Other Financing Sources (Uses)	<u>(182)</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,182)</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources	<u>-</u>	<u>(2,410)</u>	<u>(4,534)</u>	<u>(6,944)</u>
Fund Balance, Beginning of Year	<u>-</u>	<u>63,467</u>	<u>141,393</u>	<u>204,860</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ 61,057</u>	<u>\$ 136,859</u>	<u>\$ 197,916</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cavalier, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 15, 2017.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cavalier, North Dakota'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 that are required to be reported under *Government Auditing Standards*.

City of Cavalier's Response to Findings

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

Purpose of this report

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



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

March 15, 2017

CITY OF CAVALIER
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016

Financial Statement Findings

Control Deficiency 2016-001

Criteria

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

Condition

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

Cause of Condition

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

Recommendation

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

Response

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

Control Deficiency 2016-002

Criteria

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

Condition

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

Cause

The City's personnel do not have the time to draft the financial statements and notes to the financial statements.

Effect

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation

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

Response

We concur with the auditors finding and will consider the risks and costs associated with the financial statement preparation.