

# **AUDIT REPORT**

CITY OF STEELE  
Steele, North Dakota

For the Years Ended December 31, 2018 and 2017

**RATH & MEHRER, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STEELE  
Steele, North Dakota

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For the Years Ended December 31, 2018 and 2017

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CITY OF STEELE  
Steele, North Dakota

CITY OFFICIALS

Jonathan Harter	Mayor
Bob Anderson	Council Member
James Gertz	Council Member
Jorey Kartes	Council Member
Jamie Puklich	Council Member
Luke Reski	Council Member
Josh Rode	Council Member
Norm Fries	Auditor

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Steele  
Steele, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of and for the years ended December 31, 2018 and 2017, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 city'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 city'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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of December 31, 2018 and 2017, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## Other Matters

### Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and schedules of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information and the schedules of fund activity arising from cash transactions 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information, and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 6, 2019

CITY OF STEELE

Management's Discussion and Analysis

December 31, 2018 and 2017

The Management's Discussion and Analysis (MD&A) of the City of Steele's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2018 and 2017. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended December 31, 2018 are as follows:

- \* Total net position of the city increased \$53,292 as a result of the current year's operations. Net position of the governmental activities increased \$94,024 and net position of the business-type activities decreased \$40,732.
- \* Governmental net position totaled \$886,705 and business-type net position totaled \$776,591.
- \* Total revenues from all sources were \$656,012 for governmental activities and \$425,633 for business-type activities.
- \* Total expenses were \$549,488 for governmental activities and \$478,865 for business-type activities.
- \* The city's general fund had \$234,394 in total revenues and \$212,275 in total expenditures. There was a total of \$26,240 paid from other financing uses. Overall, the general fund balance decreased by \$4,121 for the year ended December 31, 2018.

Key financial highlights for the year ended December 31, 2017 are as follows:

- \* Total net position of the city increased \$4,178 as a result of the current year's operations. Net position of the governmental activities increased \$44,520 and net position of the business-type activities decreased \$40,342.
- \* Governmental net position totaled \$792,681 and business-type net position totaled \$817,323.
- \* Total revenues from all sources were \$606,755 for governmental activities and \$417,911 for business-type activities.
- \* Total expenses were \$542,235 for governmental activities and \$478,253 for business-type activities.
- \* The city's general fund had \$222,760 in total revenues and \$201,665 in total expenditures. There was a total of \$20,000 paid from other financing uses. Overall, the general fund balance increased by \$1,096 for the year ended December 31, 2017.



## USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- \* Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, 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 provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

## REPORTING ON THE CITY AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2018 and 2017?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two 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 fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works and urban and economic development. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

#### **REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS**

##### Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, street fund and sales and use tax fund are considered "major governmental funds". The city's water fund, sewer fund and garbage fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds".

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Table I provides a summary of the city's net position as of December 31, 2018 and 2017. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$53,292 and \$4,178 for the years ended December 31, 2018 and 2017, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2018, the city's net position of \$1,663,296 is segregated into three separate categories. Net investment in capital assets represents 60% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 30% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 10% of the city's net position and is available to meet the city's ongoing obligations.



Table I  
 Net Position  
 As of December 31, 2018

<u>Assets</u>	<u>Governmental</u>	<u>Business- Type</u>
Current Assets	499,505	173,511
Capital Assets (net of accumulated depreciation)	1,270,255	1,375,426
Total Assets	1,769,760	1,548,937
<u>Liabilities</u>		
Current Liabilities	663,055	18,400
Long-Term Liabilities	220,000	753,946
Total Liabilities	883,055	772,346
<u>Net Position</u>		
Net Investment in Capital Assets	387,200	603,080
Restricted	448,134	52,701
Unrestricted	51,371	120,810
Total Net Position	886,705	776,591

As of December 31, 2017, the city's net position of \$1,610,004 is segregated into three separate categories. Net investment in capital assets represents 62% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 29% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 9% of the city's net position and is available to meet the city's ongoing obligations.

Net Position  
 As of December 31, 2017

<u>Assets</u>	<u>Governmental</u>	<u>Business- Type</u>
Current Assets	428,903	179,712
Capital Assets (net of accumulated depreciation)	699,360	1,432,042
Total Assets	1,128,263	1,611,754
<u>Liabilities</u>		
Current Liabilities	63,336	17,900
Long-Term Liabilities	272,245	776,531
Total Liabilities	335,582	794,431
<u>Net Position</u>		
Net Investment in Capital Assets	363,778	637,611
Restricted	422,112	49,017
Unrestricted	6,791	130,695
Total Net Position	792,681	817,323

Net Position  
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<b><u>Assets</u></b>		
Current Assets	388,668	212,507
Capital Assets (net of accumulated depreciation)	757,374	1,456,158
Total Assets	1,146,042	1,668,665
<b><u>Liabilities</u></b>		
Current Liabilities	62,434	19,600
Long-Term Liabilities	335,447	791,400
Total Liabilities	397,881	811,000
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	359,493	645,158
Restricted	382,972	45,333
Unrestricted	5,695	167,174
Total Net Position	748,161	857,665

Table II shows the changes in net position for the fiscal years ended December 31, 2018 and 2017. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II  
Changes in Net Position  
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
<b><u>Revenues</u></b>		
<b><u>Program Revenues:</u></b>		
Charges for Services	10,297	425,633
Operating Grants and Contributions	129,179	
<b><u>General Revenues:</u></b>		
Property Taxes	145,999	
Other Taxes	283,495	
Intergovernmental - Unrestricted	53,089	
Interest Earnings and Other Revenue	33,954	
Total Revenues	656,012	425,633
<b><u>Expenses</u></b>		
General Government	114,217	
Public Safety	74,285	
Streets and Public Works	231,240	
Urban and Economic Development	93,089	
Culture and Recreation	4,125	
Other	13,330	
Interest on Long-Term Debt	19,201	
Water		310,897
Sewer		31,767
Garbage		136,200
Total Expenses	549,488	478,865
Net Change in Position Before Transfers	106,524	(53,232)
Transfers	(12,500)	12,500
Net Change in Position	94,024	(40,732)

Property taxes constituted 13%, other taxes 26%, unrestricted intergovernmental 5%, operating grants and contributions 12%, and charges for services made up 40% of the total revenues of all activities of the city for the fiscal year ended December 31, 2018.

General government constituted 11%, public safety 7%, streets and public works 22%, and enterprise 47% of total expenses for all activities during the fiscal year ended December 31, 2018.

Changes in Net Position  
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	8,032	417,906
Operating Grants and Contributions	126,191	
<u>General Revenues:</u>		
Property Taxes	123,901	
Other Taxes	243,783	
Intergovernmental - Unrestricted	64,662	
Interest Earnings and Other Revenue	40,186	5
<b>Total Revenues</b>	<u>606,755</u>	<u>417,911</u>
<b>Expenses</b>		
General Government	85,076	
Public Safety	94,478	
Streets and Public Works	216,832	
Health and Welfare	72,492	
Urban and Economic Development	62,626	
Interest on Long-Term Debt	10,732	
Water		332,953
Sewer		11,046
Garbage		134,254
<b>Total Expenses</b>	<u>542,235</u>	<u>478,253</u>
<b>Net Change in Position Before Transfers</b>	<u>64,520</u>	<u>(60,342)</u>
<b>Transfers</b>	<u>(20,000)</u>	<u>20,000</u>
<b>Net Change in Position</b>	<u>44,520</u> =====	<u>(40,342)</u> =====



Property taxes constituted 12%, other taxes 24%, unrestricted intergovernmental 6%, operating grants and contributions 12%, and charges for services made up 42% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 8%, public safety 9%, streets and public works 21%, and enterprise 47% of total expenses for all activities during the fiscal year ended December 31, 2017.

Changes in Net Position  
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	29,955	407,608
Operating Grants and Contributions	127,847	59,641
<u>General Revenues:</u>		
Property Taxes	122,638	
Other Taxes	254,216	
Intergovernmental - Unrestricted	69,281	
Interest Earnings and Other Revenue	14,781	5
<b>Total Revenues</b>	<b>618,718</b>	<b>467,254</b>
<b>Expenses</b>		
General Government	101,315	
Public Safety	71,131	
Streets and Public Works	217,892	
Health and Welfare	149,987	
Urban and Economic Development	36,306	
Culture and Recreation	15,000	
Interest on Long-Term Debt	9,883	
Water		299,846
Sewer		62,132
Garbage		127,902
<b>Total Expenses</b>	<b>601,515</b>	<b>489,879</b>
<b>Net Change in Position Before Transfers</b>	<b>17,203</b>	<b>(22,625)</b>
<b>Transfers</b>	<b>(44,500)</b>	<b>44,500</b>
<b>Net Change in Position</b>	<b>(27,297)</b>	<b>21,875</b>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services  
As of December 31, 2018

	Total Cost Year Ended <u>Dec. 31, 2018</u>	Net Cost Year Ended <u>Dec. 31, 2018</u>
General Government	114,217	109,751
Public Safety	74,285	73,745
Streets and Public Works	231,240	142,364
Urban and Economic Development	93,089	93,089
Culture and Recreation	4,125	4,125
Other	13,330	13,330
Interest on Long-Term Debt	19,201	(26,393)
<b>Total Expenses</b>	<u>549,488</u> =====	<u>410,012</u> =====

Total and Net Cost of Services  
As of December 31, 2017

	Total Cost Year Ended <u>Dec. 31, 2017</u>	Net Cost Year Ended <u>Dec. 31, 2017</u>
General Government	85,076	80,383
Public Safety	94,478	93,933
Streets and Public Works	216,832	131,053
Health and Welfare	72,492	72,492
Urban and Economic Development	62,626	62,626
Interest on Long-Term Debt	10,732	(32,474)
<b>Total Expenses</b>	<u>542,235</u> =====	<u>408,012</u> =====

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$656,012 and expenditures of \$1,215,963 for the year ended December 31, 2018. For the year ended December 31, 2017, the city's governmental funds had total revenue of \$606,755 and expenditures of \$526,020. As of December 31, 2018, the unassigned fund balance of the city's general fund was \$7,410. As of December 31, 2017, the unassigned fund balance of the city's general fund was \$6,791.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal years 2018 and 2017, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2018 was \$1,784 more than budgeted. Actual expenditures for the year ended December 31, 2018 were under budget by \$14,975.

Actual revenue for the year ended December 31, 2017 was \$4,200 less than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$39,835. This budget variance was mainly due to the city overestimating appropriations for general government.

**CAPITAL ASSETS**

As of December 31, 2018 and 2017, the city had \$2,645,681 and \$2,131,402, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type activities, as of December 31, 2018, 2017 and 2016.

Table IV

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
Land	40,000	
Buildings and Infrastructure	1,095,586	1,349,026
Machinery and Vehicles	134,669	26,400
Total (net of depreciation)	<u>1,270,255</u>	<u>1,375,426</u>
	=====	=====

This total represents an increase of \$514,279 in capital assets from January 1, 2018. The increase in buildings and infrastructure was due to a street/water project. The city also purchased a John Deere tractor.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Land	40,000	
Buildings and Infrastructure	520,503	1,402,342
Machinery and Vehicles	138,857	29,700
Total (net of depreciation)	<u>699,360</u>	<u>1,432,042</u>
	=====	=====

This total represents a decrease of \$82,130 in capital assets from January 1, 2017. During the year ended December 31, 2017 the city purchased a sewer jetter, a used tractor and a mower.



Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Land	40,000	
Buildings and Infrastructure	567,039	1,455,658
Machinery and Vehicles	150,335	500
Total (net of depreciation)	757,374	1,456,158

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

**DEBT ADMINISTRATION**

As of December 31, 2018, the city had \$1,549,855 in outstanding debt of which \$681,455 was due within one year. As of December 31, 2017, the city had \$1,020,282 in outstanding debt of which \$81,236 was due within one year.

During fiscal years 2018, the city issued one new long-term debt obligation:

Bank Loan Payable in the amount of \$643,053.60. The city received funding for a street/water project. This loan is refinanced during 2019 with the issuance of Sales Tax Revenue Bonds, Series 2019.

For a detailed breakdown of the long-term debt, readers are referred to Note 7 to the audited financial statements which follow this analysis.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Norm Fries, City Auditor, Steele, ND.

CITY OF STEELE  
Steele, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash, Cash Equivalents and Investments	380,888.40	173,510.59	554,398.99
Economic Development Loans Receivable	13,070.99		13,070.99
Advance to Water Fund	105,545.81		105,545.81
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	1,095,586.00	1,349,026.00	2,444,612.00
Machinery and Vehicles	134,669.00	26,400.00	161,069.00
Total Capital Assets	1,270,255.00	1,375,426.00	2,645,681.00
Total Assets	1,769,760.20	1,548,936.59	3,318,696.79
<b>LIABILITIES:</b>			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loans Payable	628,054.92		628,054.92
Revenue Bonds Payable	35,000.00	18,400.00	53,400.00
Due After One Year:			
Advance from Sales and Use Tax Fund		105,545.81	105,545.81
Revenue Bonds Payable	220,000.00	648,400.00	868,400.00
Total Liabilities	883,054.92	772,345.81	1,655,400.73
<b>NET POSITION:</b>			
Net Investment in Capital Assets	387,200.08	603,080.19	990,280.27
Restricted for:			
Debt Service		52,701.00	52,701.00
Special Purposes	448,134.16		448,134.16
Unrestricted	51,371.04	120,809.59	172,180.63
Total Net Position	886,705.28	776,590.78	1,663,296.06

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash, Cash Equivalents and Investments	299,003.47	179,711.59	478,715.06
Economic Development Loans Receivable	20,168.63		20,168.63
Advance to Water Fund	109,730.75		109,730.75
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	520,503.00	1,402,342.00	1,922,845.00
Machinery and Vehicles	138,857.00	29,700.00	168,557.00
<b>Total Capital Assets</b>	<b>699,360.00</b>	<b>1,432,042.00</b>	<b>2,131,402.00</b>
<b>Total Assets</b>	<b>1,128,262.85</b>	<b>1,611,753.59</b>	<b>2,740,016.44</b>
<b>LIABILITIES:</b>			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loans Payable	28,336.49		28,336.49
Revenue Bonds Payable	35,000.00	17,900.00	52,900.00
Due After One Year:			
Advance from Sales and Use Tax Fund		109,730.75	109,730.75
Bank Loans Payable	17,245.38		17,245.38
Revenue Bonds Payable	255,000.00	666,800.00	921,800.00
<b>Total Liabilities</b>	<b>335,581.87</b>	<b>794,430.75</b>	<b>1,130,012.62</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	363,778.13	637,611.25	1,001,389.38
Restricted for:			
Debt Service		49,017.00	49,017.00
Special Purposes	422,111.77		422,111.77
Unrestricted	6,791.08	130,694.59	137,485.67
<b>Total Net Position</b>	<b>792,680.98</b>	<b>817,322.84</b>	<b>1,610,003.82</b>

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2018

	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	114,217.14	4,466.00		(109,751.14)		(109,751.14)
Public Safety	74,284.50	540.00		(73,744.50)		(73,744.50)
Streets and Public Works	231,240.47	5,290.99	83,585.15	(142,364.33)		(142,364.33)
Urban and Economic Development	93,089.19			(93,089.19)		(93,089.19)
Culture and Recreation	4,125.00			(4,125.00)		(4,125.00)
Other	13,330.19			(13,330.19)		(13,330.19)
Interest on Long-Term Debt	19,201.37		45,594.08	26,392.71		26,392.71
<b>Total Governmental Activities</b>	<b>549,487.86</b>	<b>10,296.99</b>	<b>129,179.23</b>	<b>(410,011.64)</b>		<b>(410,011.64)</b>
<u>Business-Type Activities:</u>						
Water Operating	310,897.37	260,995.11			(49,902.26)	(49,902.26)
Sewer Operating	31,767.41	27,643.32			(4,124.09)	(4,124.09)
Garbage Operating	136,200.17	136,994.46			794.29	794.29
<b>Total Business-Type Activities</b>	<b>478,864.95</b>	<b>425,632.89</b>			<b>(53,232.06)</b>	<b>(53,232.06)</b>
<b>Total Primary Government</b>	<b>1,028,352.81</b>	<b>435,929.88</b>	<b>129,179.23</b>	<b>(410,011.64)</b>	<b>(53,232.06)</b>	<b>(463,243.70)</b>
-----						
<u>General Revenues:</u>						
<u>Taxes:</u>						
Property taxes; levied for general purposes				143,028.69		143,028.69
Property taxes; levied for special purposes				2,969.88		2,969.88
Sales taxes				265,151.06		265,151.06
Occupancy taxes				7,660.29		7,660.29
Cigarette taxes				1,987.89		1,987.89
Disabled veterans credit taxes				1,113.80		1,113.80
Homestead credit taxes				7,581.89		7,581.89
Intergovernmental revenue not restricted to specific programs				53,088.85		53,088.85
Earnings on investments and other revenue				33,953.59		33,953.59
Transfers				(12,500.00)	12,500.00	
<b>Total General Revenues and Transfers</b>				<b>504,035.94</b>	<b>12,500.00</b>	<b>516,535.94</b>
<b>Change in Net Position</b>				<b>94,024.30</b>	<b>(40,732.06)</b>	<b>53,292.24</b>
<b>Net Position - January 1</b>				<b>792,680.98</b>	<b>817,322.84</b>	<b>1,610,003.82</b>
<b>Net Position - December 31</b>				<b>886,705.28</b>	<b>776,590.78</b>	<b>1,663,296.06</b>
=====						

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2017

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
<u>Primary Government:</u>					
<u>Governmental Activities:</u>					
General Government	85,075.59	4,693.00		(80,382.59)	(80,382.59)
Public Safety	94,478.26	545.00		(93,933.26)	(93,933.26)
Streets and Public Works	216,832.08	2,794.48	82,984.69	(131,052.91)	(131,052.91)
Health and Welfare	72,491.64			(72,491.64)	(72,491.64)
Urban and Economic Development	62,625.60			(62,625.60)	(62,625.60)
Interest on Long-Term Debt	10,732.02		43,206.00	32,473.98	32,473.98
<b>Total Governmental Activities</b>	<b>542,235.19</b>	<b>8,032.48</b>	<b>126,190.69</b>	<b>(408,012.02)</b>	<b>(408,012.02)</b>
<u>Business-Type Activities:</u>					
Water	332,952.94	253,784.05		(79,168.89)	(79,168.89)
Sewer	11,046.47	30,079.24		19,032.77	19,032.77
Garbage	134,253.51	134,042.39		(211.12)	(211.12)
<b>Total Business-Type Activities</b>	<b>478,252.92</b>	<b>417,905.68</b>		<b>(60,347.24)</b>	<b>(60,347.24)</b>
<b>Total Primary Government</b>	<b>1,020,488.11</b>	<b>425,938.16</b>	<b>126,190.69</b>	<b>(408,012.02)</b>	<b>(60,347.24)</b>
-----					
<u>General Revenues:</u>					
<u>Taxes:</u>					
Property taxes; levied for general purposes			121,333.83		121,333.83
Property taxes; levied for special purposes			2,567.30		2,567.30
Sales taxes			225,871.79		225,871.79
Occupancy taxes			8,376.83		8,376.83
Cigarette taxes			2,057.05		2,057.05
Homestead credit taxes			7,477.26		7,477.26
Intergovernmental revenue not restricted to specific programs			64,662.48		64,662.48
Earnings on investments and other revenue			40,185.70	5.01	40,190.71
Transfers			(20,000.00)	20,000.00	
<b>Total General Revenues and Transfers</b>			<b>452,532.24</b>	<b>20,005.01</b>	<b>472,537.25</b>
<b>Change in Net Position</b>			<b>44,520.22</b>	<b>(40,342.23)</b>	<b>4,177.99</b>
<b>Net Position - January 1</b>			<b>748,160.76</b>	<b>857,665.07</b>	<b>1,605,825.83</b>
<b>Net Position - December 31</b>			<b>792,680.98</b>	<b>817,322.84</b>	<b>1,610,003.82</b>
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The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<b>ASSETS:</b>					
Cash, Cash Equivalents and Investments	35,794.11	117,313.44	190,309.62	37,471.23	380,888.40
Economic Development Loans Receivable			13,070.99		13,070.99
Advance to Water Fund			105,545.81		105,545.81
<hr/>					
Total Assets	35,794.11	117,313.44	308,926.42	37,471.23	499,505.20
<hr style="border-top: 1px dashed black;"/>					
<b>FUND BALANCES</b>					
Nonspendable:					
Economic Development Loans			13,070.99		13,070.99
Advance to Water Fund			105,545.81		105,545.81
Restricted for:					
Streets and Public Works		73,352.44			73,352.44
Urban and Economic Development			190,309.62	34,346.20	224,655.82
Safe Route	27,781.79				27,781.79
Horizon Project	602.28				602.28
150th Celebration				3,125.03	3,125.03
Assigned to:					
City Shop Building		43,961.00			43,961.00
Unassigned	7,410.04				7,410.04
<hr/>					
Total Fund Balances	35,794.11	117,313.44	308,926.42	37,471.23	499,505.20
<hr style="border-top: 1px dashed black;"/>					

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2017

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<b>ASSETS:</b>					
Cash, Cash Equivalents and Investments	39,915.15	19,184.19	200,454.66	39,449.47	299,003.47
Economic Development Loans Receivable			20,168.63		20,168.63
Advance to Water Fund			109,730.75		109,730.75
<hr/>					
Total Assets	39,915.15	19,184.19	330,354.04	39,449.47	428,902.85
<hr style="border-top: 1px dashed black;"/>					
<b>FUND BALANCES</b>					
Nonspendable:					
Economic Development Loans			20,168.63		20,168.63
Advance to Water Fund			109,730.75		109,730.75
Restricted for:					
Streets and Public Works		19,184.19			19,184.19
Urban and Economic Development			200,454.66	36,326.00	236,780.66
Safe Route	32,521.79				32,521.79
Horizon Project	602.28				602.28
150th Celebration				3,123.47	3,123.47
Unassigned	6,791.08				6,791.08
<hr/>					
Total Fund Balances	39,915.15	19,184.19	330,354.04	39,449.47	428,902.85
<hr style="border-top: 1px dashed black;"/>					

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2018

Total Fund Balances for Governmental Funds		499,505.20
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	2,284,298.00	
Less Accumulated Depreciation	(1,014,043.00)	
Net Capital Assets		1,270,255.00
<p>Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2018 are:</p>		
Bank Loans Payable	(628,054.92)	
Revenue Bonds Payable	(255,000.00)	
Total Liabilities		(883,054.92)
Total Net Position of Governmental Activities		886,705.28

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2017

Total Fund Balances for Governmental Funds		428,902.85
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	1,615,944.00	
Less Accumulated Depreciation	(916,584.00)	
Net Capital Assets	699,360.00	699,360.00
<p>Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2017 are:</p>		
Bank Loans Payable	(45,581.87)	
Revenue Bonds Payable	(290,000.00)	
Total Liabilities	(335,581.87)	(335,581.87)
Total Net Position of Governmental Activities		792,680.98

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2018

	Major Funds				Total Governmental Funds
	General	Street	Sales and Use Tax	Other Governmental Funds	
<b>Revenues:</b>					
Taxes	143,028.69	201,847.38	66,273.56	7,660.29	418,809.92
Special Assessments		45,594.08			45,594.08
Licenses, Permits and Fees	4,466.00				4,466.00
Intergovernmental	63,772.43	83,585.15			147,357.58
Charges for Services		5,290.99			5,290.99
Fines and Forfeitures	540.00				540.00
Miscellaneous	22,586.92		11,357.70	8.97	33,953.59
<b>Total Revenues</b>	<b>234,394.04</b>	<b>336,317.60</b>	<b>77,631.26</b>	<b>7,669.26</b>	<b>656,012.16</b>
<b>Expenditures:</b>					
Current:					
General Government	111,831.14				111,831.14
Public Safety	69,831.50				69,831.50
Streets and Public Works	30,612.44	111,846.03			142,458.47
Urban and Economic Development			81,603.69	9,647.50	91,251.19
Culture and Recreation			4,125.00		4,125.00
Other			13,330.19		13,330.19
Capital Outlay		668,354.00			668,354.00
Debt Service:					
Principal		95,580.55			95,580.55
Interest and Service Charges		19,201.37			19,201.37
<b>Total Expenditures</b>	<b>212,275.08</b>	<b>894,981.95</b>	<b>99,058.88</b>	<b>9,647.50</b>	<b>1,215,963.41</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>22,118.96</b>	<b>(558,664.35)</b>	<b>(21,427.62)</b>	<b>(1,978.24)</b>	<b>(559,951.25)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In		48,701.00			48,701.00
Transfers Out	(26,240.00)	(34,961.00)			(61,201.00)
Proceeds from Bank Loan		643,053.60			643,053.60
<b>Total Other Financing Sources (Uses)</b>	<b>(26,240.00)</b>	<b>656,793.60</b>			<b>630,553.60</b>
<b>Net Change in Fund Balances</b>	<b>(4,121.04)</b>	<b>98,129.25</b>	<b>(21,427.62)</b>	<b>(1,978.24)</b>	<b>70,602.35</b>
<b>Fund Balance - January 1</b>	<b>39,915.15</b>	<b>19,184.19</b>	<b>330,354.04</b>	<b>39,449.47</b>	<b>428,902.85</b>
<b>Fund Balance - December 31</b>	<b>35,794.11</b>	<b>117,313.44</b>	<b>308,926.42</b>	<b>37,471.23</b>	<b>499,505.20</b>

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2017

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<b>Revenues:</b>					
Taxes	121,333.83	57,009.42	171,429.67	8,376.83	358,149.75
Special Assessments		43,206.00			43,206.00
Licenses, Permits and Fees	4,693.00				4,693.00
Intergovernmental	74,196.79	82,984.69			157,181.48
Charges for Services		2,794.48			2,794.48
Fines and Forfeitures	545.00				545.00
Miscellaneous	21,991.81		18,180.55	13.34	40,185.70
<b>Total Revenues</b>	<b>222,760.43</b>	<b>185,994.59</b>	<b>189,610.22</b>	<b>8,390.17</b>	<b>606,755.41</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	82,689.59				82,689.59
Public Safety	90,025.26				90,025.26
Streets and Public Works	28,949.97	122,045.11			150,995.08
Health and Welfare			72,491.64		72,491.64
Urban and Economic Development			31,284.60	9,003.00	40,287.60
Capital Outlay		16,500.00			16,500.00
<b>Debt Service:</b>					
Principal		62,298.92			62,298.92
Interest and Service Charges		10,732.02			10,732.02
<b>Total Expenditures</b>	<b>201,664.82</b>	<b>211,576.05</b>	<b>103,776.24</b>	<b>9,003.00</b>	<b>526,020.11</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>21,095.61</b>	<b>(25,581.46)</b>	<b>85,833.98</b>	<b>(612.83)</b>	<b>80,735.30</b>
<b>Other Financing (Uses):</b>					
Transfers Out	(20,000.00)				(20,000.00)
Bad Debt Expense for Advance			(20,500.00)		(20,500.00)
<b>Total Other Financing (Uses)</b>	<b>(20,000.00)</b>		<b>(20,500.00)</b>		<b>(40,500.00)</b>
<b>Net Change in Fund Balances</b>	<b>1,095.61</b>	<b>(25,581.46)</b>	<b>65,333.98</b>	<b>(612.83)</b>	<b>40,235.30</b>
<b>Fund Balance - January 1</b>	<b>38,819.54</b>	<b>44,765.65</b>	<b>265,020.06</b>	<b>40,062.30</b>	<b>388,667.55</b>
<b>Fund Balance - December 31</b>	<b>39,915.15</b>	<b>19,184.19</b>	<b>330,354.04</b>	<b>39,449.47</b>	<b>428,902.85</b>

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

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

Net Change in Fund Balances - Total Governmental Funds	70,602.35
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	668,354.00	
Current Year Depreciation Expense	(97,459.00)	570,895.00

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt.

Debt Proceeds	(643,053.60)	
Repayment of Debt	95,580.55	(547,473.05)

Change in Net Position of Governmental Activities	94,024.30
	=====

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds	40,235.30
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	16,500.00	
Current Year Depreciation Expense	(74,514.00)	(58,014.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	62,298.92	62,298.92

Change in Net Position of Governmental Activities	44,520.22
	=====

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2018

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	129,068.29	32,544.35	11,897.95	173,510.59
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,203,673.00	145,353.00		1,349,026.00
Machinery and Vehicles		26,400.00		26,400.00
Total Noncurrent Assets	1,203,673.00	171,753.00		1,375,426.00
Total Assets	1,332,741.29	204,297.35	11,897.95	1,548,936.59
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	18,400.00			18,400.00
<u>Noncurrent Liabilities:</u>				
Advance from Sales and Use Tax Fund	105,545.81			105,545.81
Revenue Bonds Payable	648,400.00			648,400.00
Total Noncurrent Liabilities	753,945.81			753,945.81
Total Liabilities	772,345.81			772,345.81
<u>NET POSITION</u>				
Net Investment in Capital Assets	431,327.19	171,753.00		603,080.19
Restricted for Debt Service	52,701.00			52,701.00
Unrestricted	76,367.29	32,544.35	11,897.95	120,809.59
Total Net Position	560,395.48	204,297.35	11,897.95	776,590.78

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2017

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	135,047.49	33,560.44	11,103.66	179,711.59
<b>Noncurrent Assets:</b>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,251,681.00	150,661.00		1,402,342.00
Machinery and Vehicles		29,700.00		29,700.00
Total Noncurrent Assets	1,251,681.00	180,361.00		1,432,042.00
<b>Total Assets</b>	<b>1,386,728.49</b>	<b>213,921.44</b>	<b>11,103.66</b>	<b>1,611,753.59</b>
=====				
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Revenue Bonds Payable	17,900.00			17,900.00
<b>Noncurrent Liabilities:</b>				
Advance from Sales and Use Tax Fund	109,730.75			109,730.75
Revenue Bonds Payable	666,800.00			666,800.00
Total Noncurrent Liabilities	776,530.75			776,530.75
<b>Total Liabilities</b>	<b>794,430.75</b>			<b>794,430.75</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	457,250.25	180,361.00		637,611.25
Restricted for Debt Service	49,017.00			49,017.00
Unrestricted	86,030.49	33,560.44	11,103.66	130,694.59
<b>Total Net Position</b>	<b>592,297.74</b>	<b>213,921.44</b>	<b>11,103.66</b>	<b>817,322.84</b>
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds

For the Year Ended December 31, 2018

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	258,065.36			258,065.36
Sewer Collections		27,643.32		27,643.32
Garbage Collections			134,378.20	134,378.20
Garbage Surcharge			2,616.26	2,616.26
Other Collections	2,929.75			2,929.75
<b>Total Operating Revenues</b>	<b>260,995.11</b>	<b>27,643.32</b>	<b>136,994.46</b>	<b>425,632.89</b>
<u>Operating Expenses:</u>				
Water Department	238,443.71			238,443.71
Sewer Department		23,159.41		23,159.41
Garbage Department			136,200.17	136,200.17
Depreciation	48,008.00	8,608.00		56,616.00
<b>Total Operating Expenses</b>	<b>286,451.71</b>	<b>31,767.41</b>	<b>136,200.17</b>	<b>454,419.29</b>
<b>Operating Income (Loss)</b>	<b>(25,456.60)</b>	<b>(4,124.09)</b>	<b>794.29</b>	<b>(28,786.40)</b>
<u>Non-Operating Revenues (Expenses):</u>				
Debt Service - Interest and Service Charges	(24,445.66)			(24,445.66)
<b>Income (Loss) Before Transfers</b>	<b>(49,902.26)</b>	<b>(4,124.09)</b>	<b>794.29</b>	<b>(53,232.06)</b>
Transfers In	30,684.00			30,684.00
Transfers Out	(12,684.00)	(5,500.00)		(18,184.00)
<b>Change in Net Position</b>	<b>(31,902.26)</b>	<b>(9,624.09)</b>	<b>794.29</b>	<b>(40,732.06)</b>
<b>Net Position - January 1</b>	<b>592,297.74</b>	<b>213,921.44</b>	<b>11,103.66</b>	<b>817,322.84</b>
<b>Net Position - December 31</b>	<b>560,395.48</b>	<b>204,297.35</b>	<b>11,897.95</b>	<b>776,590.78</b>

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds

For the Year Ended December 31, 2017

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	252,943.56			252,943.56
Sewer Collections		26,079.24		26,079.24
Garbage Collections			131,467.39	131,467.39
Garbage Surcharge			2,575.00	2,575.00
Other Collections	840.49	4,000.00		4,840.49
<b>Total Operating Revenues</b>	<b>253,784.05</b>	<b>30,079.24</b>	<b>134,042.39</b>	<b>417,905.68</b>
<u>Operating Expenses:</u>				
Water Department	249,816.02			249,816.02
Sewer Department		1,938.47		1,938.47
Garbage Department			134,253.51	134,253.51
Depreciation	48,008.00	9,108.00		57,116.00
<b>Total Operating Expenses</b>	<b>297,824.02</b>	<b>11,046.47</b>	<b>134,253.51</b>	<b>443,124.00</b>
<b>Operating Income (Loss)</b>	<b>(44,039.97)</b>	<b>19,032.77</b>	<b>(211.12)</b>	<b>(25,218.32)</b>
<u>Non-Operating Revenues (Expenses):</u>				
Interest	5.01			5.01
Debt Service - Interest and Service Charges	(35,128.92)			(35,128.92)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(35,123.91)</b>			<b>(35,123.91)</b>
<b>Income (Loss) Before Transfers</b>	<b>(79,163.88)</b>	<b>19,032.77</b>	<b>(211.12)</b>	<b>(60,342.23)</b>
Transfers In	41,684.00			41,684.00
Transfers Out	(15,684.00)	(6,000.00)		(21,684.00)
<b>Change in Net Position</b>	<b>(53,163.88)</b>	<b>13,032.77</b>	<b>(211.12)</b>	<b>(40,342.23)</b>
<b>Net Position - January 1</b>	<b>645,461.62</b>	<b>200,888.67</b>	<b>11,314.78</b>	<b>857,665.07</b>
<b>Net Position - December 31</b>	<b>592,297.74</b>	<b>213,921.44</b>	<b>11,103.66</b>	<b>817,322.84</b>

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2018

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	260,995.11	27,643.32	136,994.46	425,632.89
Payments to suppliers and employees	(238,443.71)	(23,159.41)	(136,200.17)	(397,803.29)
Net cash provided (used) by operating activities	22,551.40	4,483.91	794.29	27,829.60
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	30,684.00			30,684.00
Transfers out	(12,684.00)	(5,500.00)		(18,184.00)
Net cash provided (used) by noncapital financing activities	18,000.00	(5,500.00)		12,500.00
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(17,900.00)			(17,900.00)
Interest and service charges	(28,630.60)			(28,630.60)
Net cash provided (used) by capital and related financing activities	(46,530.60)			(46,530.60)
Net increase in cash and cash equivalents	(5,979.20)	(1,016.09)	794.29	(6,201.00)
Cash and cash equivalents, January 1	135,047.49	33,560.44	11,103.66	179,711.59
Cash and cash equivalents, December 31	129,068.29	32,544.35	11,897.95	173,510.59
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(25,456.60)	(4,124.09)	794.29	(28,786.40)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	48,008.00	8,608.00		56,616.00
Net cash provided (used) by operating activities	22,551.40	4,483.91	794.29	27,829.60
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF STEELE  
Steele, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2017

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	253,784.05	30,079.24	134,042.39	417,905.68
Payments to suppliers and employees	(249,816.02)	(1,938.47)	(134,253.51)	(386,008.00)
Net cash provided (used) by operating activities	3,968.03	28,140.77	(211.12)	31,897.68
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	41,684.00			41,684.00
Transfers out	(15,684.00)	(6,000.00)		(21,684.00)
Net cash provided (used) by noncapital financing activities	26,000.00	(6,000.00)		20,000.00
<u>Cash flows from capital and related financing activities:</u>				
Advance from sales tax and use fund	109,730.75			109,730.75
Purchase of fixed assets		(33,000.00)		(33,000.00)
Principal payments	(126,300.00)			(126,300.00)
Interest and service charges	(35,128.92)			(35,128.92)
Net cash provided (used) by capital and related financing activities	(51,698.17)	(33,000.00)		(84,698.17)
<u>Cash flows from investing activities:</u>				
Interest income	5.01			5.01
Net increase in cash and cash equivalents	(21,725.13)	(10,859.23)	(211.12)	(32,795.48)
Cash and cash equivalents, January 1	156,772.62	44,419.67	11,314.78	212,507.07
Cash and cash equivalents, December 31	135,047.49	33,560.44	11,103.66	179,711.59
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(44,039.97)	19,032.77	(211.12)	(25,218.32)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	48,008.00	9,108.00		57,116.00
Net cash provided (used) by operating activities	3,968.03	28,140.77	(211.12)	31,897.68
=====				

The accompanying notes are an integral part of these financial statements.



CITY OF STEELE  
Steele, North Dakota

Notes to the Financial Statements  
December 31, 2018 and 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Steele operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Comparability with reports of all prior years will be affected. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the City of Steele as a reporting entity.

B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, the City of Steele. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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



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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

*Street.* This fund accounts for a special levy, the state highway distribution tax and other state grants to be used for street repairs and maintenance.

*Sales and Use Tax.* This fund accounts for the city's sales tax collections. The city has determined that sales tax collections are to be used for infrastructure and/or equipment, urban and economic development and to support the Kidder County Community Healthcare clinic.

The city reports the following major enterprise funds:

*Water.* This fund accounts for the activities of the city's water distribution system and to accumulate resources to pay the principal and interest of the Water Revenue Bonds of 2003.

*Sewer.* This fund accounts for the activities of the city's sewage collection system.

*Garbage.* This fund accounts for the activities of the city's garbage collection system.

The city reports the following fund type:

*Agency Fund.* This fund accounts for the assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for a community development block grant received on behalf of Midwest Maintenance and Construction.

### C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

#### Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

#### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the city utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.



#### D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and Infrastructure	25 to 75 years
Machinery and Vehicles	7 to 20 years

#### F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

#### G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

#### H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.



### I. Interfund Transactions

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

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

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

### J. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

## Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the city maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

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

At December 31, 2018 the city's carrying amount of deposits was \$554,399 and the bank balance was \$600,200. Of the bank balance, \$458,434 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$141,766 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2017 the city's carrying amount of deposits was \$478,715 and the bank balance was \$496,799. Of the bank balance, \$470,597 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$26,202 was collateralized with securities held by the pledging financial institution's agent in the government's name.

### Credit Risk

The city may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) 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.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2018 the city held certificates of deposit in the amount of \$16,221, which are all considered deposits.

At December 31, 2017 the city held certificates of deposit in the amount of \$16,182, which are all considered deposits.

### Concentration of Credit Risk

The city does not have a limit on the amount the city may invest in any one issuer.

### Note 3 PROPERTY TAXES

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 ECONOMIC DEVELOPMENT LOANS RECEIVABLE

Economic development loans receivable consists of amounts loaned from the city sales and use tax fund to local businesses. The following amounts are outstanding at December 31, 2018:

<u>Sales and Use Tax Fund</u>	
Kidco Farms Processing, Inc.	13,070.99
	=====

Note 5 ADVANCE TO WATER FUND/FROM SALES AND USE TAX FUND

Advance to water fund consists of moneys loaned from the sales and use tax fund to the water fund for the purpose of paying off two USDA loans. Funds will be repaid with a minimum annual payment of \$8,000 including interest at 3%.

Note 6 CAPITAL ASSETS

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

	<u>2018</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	40,000			40,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,294,578	643,054		1,937,632
Machinery and Vehicles	281,366	25,300		306,666
<b>Total</b>	<u>1,575,944</u>	<u>668,354</u>		<u>2,244,298</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	774,075	67,971		842,046
Machinery and Vehicles	142,509	29,488		171,997
<b>Total</b>	<u>916,584</u>	<u>97,459</u>		<u>1,014,043</u>
<b>Total capital assets being depreciated, net</b>	<u>659,360</u>	<u>570,895</u>		<u>1,230,255</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>699,360</u>	<u>570,895</u>	<u>-0-</u>	<u>1,270,255</u>
	=====	=====	=====	=====



	<u>2017</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	40,000			40,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,294,578			1,294,578
Machinery and Vehicles	275,066	16,500	10,200	281,366
<b>Total</b>	<u>1,569,644</u>	<u>16,500</u>	<u>10,200</u>	<u>1,575,944</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	727,539	46,536		774,075
Machinery and Vehicles	124,731	27,978	10,200	142,509
<b>Total</b>	<u>852,270</u>	<u>74,514</u>	<u>10,200</u>	<u>916,584</u>
<b>Total capital assets being depreciated, net</b>	<u>717,374</u>	<u>(58,014)</u>		<u>659,360</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>757,374</u>	<u>(58,014)</u>	<u>-0-</u>	<u>699,360</u>

	<u>2018</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-Type Activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	33,000			33,000
<b>Total</b>	<u>2,141,124</u>			<u>2,141,124</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	705,782	53,316		759,098
Machinery and Vehicles	3,300	3,300		6,600
<b>Total</b>	<u>709,082</u>	<u>56,616</u>		<u>765,698</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>1,432,042</u>	<u>(56,616)</u>	<u>-0-</u>	<u>1,375,426</u>



2017

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-Type Activities:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	5,000	33,000	5,000	33,000
<b>Total</b>	2,113,124	33,000	5,000	2,141,124
 <i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	652,466	53,316		705,782
Machinery and Vehicles	4,500	3,800	5,000	3,300
<b>Total</b>	656,966	57,116	5,000	709,082
<b>Business-Type Activities</b>				
Capital Assets, Net	1,456,158	(24,116)	-0-	1,432,042
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
<b><u>Governmental Activities:</u></b>		
General Government	2,386	2,386
Public Safety	4,453	4,453
Streets and Public Works	88,782	65,837
Urban and Econ. Develop.	1,838	1,838
<b>Total</b>	97,459	74,514
	=====	=====
 <b><u>Business-Type Activities:</u></b>		
Combined Water	48,008	48,008
Sewer Operating	8,608	9,108
<b>Total</b>	56,616	57,116
	=====	=====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2018 and 2017, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>2018</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Bank Loans Payable	45,582	643,054	60,581	628,055	628,055
Revenue Bonds Payable	290,000		35,000	255,000	35,000
<b>Total</b>	<b>335,582</b>	<b>643,054</b>	<b>95,581</b>	<b>883,055</b>	<b>663,055</b>

  

	<u>2017</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Bank Loans Payable	72,881		10,555	45,582	28,336
Revenue Bonds Payable	325,000		35,000	290,000	35,000
<b>Total</b>	<b>397,881</b>	<b>-0-</b>	<b>45,555</b>	<b>335,582</b>	<b>63,336</b>

Business-Type Activities

	<u>2018</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds Payable	684,700	-0-	17,900	666,800	18,400

  

	<u>2017</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds Payable	811,000	-0-	126,300	684,700	17,900

Outstanding debt at December 31, 2018 consists of the following:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2018, is as follows:

Bank Loans Payable. The city has entered into loan agreements for the purchase of a 2014 Durapatcher and a street/water project.

\$50,000 Bank Loan with Choice Financial, due in final installment of \$17,785.71 on January 28, 2019; payment includes interest at 3.26%.	17,245.38
\$643,053.60 Bank Loan with Choice Financial, due in final installment of \$610,809.54 in 2019; interest is at 3.98%.	610,809.54
<b>Total Bank Loans Payable</b>	<b>628,054.92</b>

The annual requirements to amortize the outstanding bank loans payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	628,054.92	14,368.98
	=====	=====

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2018 are as follows:

\$375,000 Sales Tax Revenue Bonds, Series 2015 due in annual installments of \$35,000 to \$40,000 through November 1, 2025; interest is at 1.75% to 2.5%.	255,000.00
	=====

The annual requirements to amortize the outstanding revenue bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	35,000.00	5,850.00
2020	35,000.00	5,237.50
2021	35,000.00	4,625.00
2022	35,000.00	3,750.00
2023	35,000.00	2,875.00
2024-2025	80,000.00	3,000.00
Total	255,000.00	25,337.50
	=====	=====

Business-Type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2018 are as follows:

\$875,000 Water Improvement Revenue Bonds of 2003, Series A due in annual installments of \$17,400 to \$33,700 through July 11, 2043; interest is at 3%.	666,800.00
	=====

The annual requirements to amortize the outstanding revenue bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	18,400.00	20,004.00
2020	19,000.00	19,452.00
2021	19,500.00	18,882.00
2022	20,100.00	18,297.00
2023	20,700.00	17,694.00
2024-2028	113,200.00	78,774.00
2029-2033	131,200.00	60,744.00
2034-2038	152,100.00	39,843.00
2039-2043	172,600.00	15,627.00
Total	666,800.00	289,317.00
	=====	=====



Note 8 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2018</u>		
Water Operating	27,000.00	
General Operating		21,500.00
Sewer		5,500.00
Street Operating	4,740.00	
General Safe Route		4,740.00
To subsidize expenditures.		
Street-Shop Reserve	43,961.00	
Street Operating		34,961.00
Water Operating		9,000.00
To set-aside funds for new city shop building.		
Water Reserve	3,684.00	
Water Operating		3,684.00
To set-aside funds for reserves.		
<u>December 31, 2017</u>		
Water Operating	26,000.00	
General Operating		20,000.00
Sewer		6,000.00
To subsidize expenditures.		
Water Filter	12,000.00	
Water Reserve	3,684.00	
Water Operating		15,684.00
To set-aside funds for reserves.		

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$374,669 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$442,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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



CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	145,000.00	145,000.00	143,028.69	(1,971.31)
Licenses, Permits and Fees	3,160.00	3,160.00	4,466.00	1,306.00
Intergovernmental	57,200.00	57,200.00	63,772.43	6,572.43
Fines and Forfeitures	1,500.00	1,500.00	540.00	(960.00)
Miscellaneous	25,750.00	25,750.00	22,586.92	(3,163.08)
<b>Total Revenues</b>	<b>232,610.00</b>	<b>232,610.00</b>	<b>234,394.04</b>	<b>1,784.04</b>
<u>Expenditures:</u>				
Current:				
General Government	119,150.00	119,150.00	111,831.14	7,318.86
Public Safety	76,100.00	76,100.00	69,831.50	6,268.50
Streets and Public Works	32,000.00	32,000.00	30,612.44	1,387.56
<b>Total Expenditures</b>	<b>227,250.00</b>	<b>227,250.00</b>	<b>212,275.08</b>	<b>14,974.92</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>5,360.00</b>	<b>5,360.00</b>	<b>22,118.96</b>	<b>16,758.96</b>
<u>Other Financing (Uses):</u>				
Transfers Out			(26,240.00)	(26,240.00)
<b>Net Change in Fund Balances</b>	<b>5,360.00</b>	<b>5,360.00</b>	<b>(4,121.04)</b>	<b>(9,481.04)</b>
<b>Fund Balance - January 1</b>	<b>39,915.15</b>	<b>39,915.15</b>	<b>39,915.15</b>	
<b>Fund Balance - December 31</b>	<b>45,275.15</b>	<b>45,275.15</b>	<b>35,794.11</b>	<b>(9,481.04)</b>

CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	139,000.00	139,000.00	121,333.83	(17,666.17)
Licenses, Permits and Fees	2,910.00	2,910.00	4,693.00	1,783.00
Intergovernmental	57,300.00	57,300.00	74,196.79	16,896.79
Fines and Forfeitures	2,000.00	2,000.00	545.00	(1,455.00)
Miscellaneous	25,750.00	25,750.00	21,991.81	(3,758.19)
<b>Total Revenues</b>	<b>226,960.00</b>	<b>226,960.00</b>	<b>222,760.43</b>	<b>(4,199.57)</b>
<u>Expenditures:</u>				
Current:				
General Government	134,400.00	134,400.00	82,689.59	51,710.41
Public Safety	75,100.00	75,100.00	90,025.26	(14,925.26)
Streets and Public Works	32,000.00	32,000.00	28,949.97	3,050.03
<b>Total Expenditures</b>	<b>241,500.00</b>	<b>241,500.00</b>	<b>201,664.82</b>	<b>39,835.18</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(14,540.00)</b>	<b>(14,540.00)</b>	<b>21,095.61</b>	<b>35,635.61</b>
<u>Other Financing (Uses):</u>				
Transfers Out			(20,000.00)	(20,000.00)
<b>Net Change in Fund Balances</b>	<b>(14,540.00)</b>	<b>(14,540.00)</b>	<b>1,095.61</b>	<b>15,635.61</b>
<b>Fund Balance - January 1</b>	<b>38,819.54</b>	<b>38,819.54</b>	<b>38,819.54</b>	
<b>Fund Balance - December 31</b>	<b>24,279.54</b>	<b>24,279.54</b>	<b>39,915.15</b>	<b>15,635.61</b>

CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Street Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	180,000.00	180,000.00	201,847.38	21,847.38
Special Assessments	43,000.00	43,000.00	45,594.08	2,594.08
Intergovernmental	80,500.00	80,500.00	83,585.15	3,085.15
Charges for Services	6,000.00	6,000.00	5,290.59	(709.41)
<b>Total Revenues</b>	<b>309,500.00</b>	<b>309,500.00</b>	<b>336,317.20</b>	<b>26,817.20</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Streets and Public Works	161,750.00	161,750.00	111,846.03	49,903.97
Capital Outlay	687,054.00	687,054.00	668,354.00	18,700.00
<b>Debt Service:</b>				
Principal	55,000.00	55,000.00	95,580.55	(40,580.55)
Interest and Service Charges			19,201.37	(19,201.37)
<b>Total Expenditures</b>	<b>903,804.00</b>	<b>903,804.00</b>	<b>894,981.95</b>	<b>8,822.05</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(594,304.00)</b>	<b>(594,304.00)</b>	<b>(558,664.75)</b>	<b>35,639.25</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In			48,701.00	48,701.00
Transfers Out			(34,961.00)	(34,961.00)
Proceeds from Bank Loan	643,054.00	643,054.00	643,054.00	
<b>Total Other Financing Sources</b>	<b>643,054.00</b>	<b>643,054.00</b>	<b>656,794.00</b>	<b>13,740.00</b>
<b>Net Change in Fund Balances</b>	<b>48,750.00</b>	<b>48,750.00</b>	<b>98,129.25</b>	<b>49,379.25</b>
<b>Fund Balance - January 1</b>	<b>19,184.19</b>	<b>19,184.19</b>	<b>19,184.19</b>	
<b>Fund Balance - December 31</b>	<b>67,934.19</b>	<b>67,934.19</b>	<b>117,313.44</b>	<b>49,379.25</b>



CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Street Fund  
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	54,000.00	54,000.00	57,009.42	3,009.42
Special Assessments	6,000.00	6,000.00	43,206.00	37,206.00
Intergovernmental	80,640.00	80,640.00	82,984.69	2,344.69
Charges for Services	6,200.00	6,200.00	2,794.48	(3,405.52)
<b>Total Revenues</b>	<b>146,840.00</b>	<b>146,840.00</b>	<b>185,994.59</b>	<b>39,154.59</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	135,000.00	135,000.00	122,045.11	12,954.89
Capital Outlay	25,000.00	25,000.00	16,500.00	8,500.00
Debt Service:				
Principal			62,298.92	(62,298.92)
Interest and Service Charges			10,732.02	(10,732.02)
<b>Total Expenditures</b>	<b>160,000.00</b>	<b>160,000.00</b>	<b>211,576.05</b>	<b>(51,576.05)</b>
<b>Net Change in Fund Balances</b>	<b>(13,160.00)</b>	<b>(13,160.00)</b>	<b>(25,581.46)</b>	<b>(12,421.46)</b>
<b>Fund Balance - January 1</b>	<b>44,765.65</b>	<b>44,765.65</b>	<b>44,765.65</b>	
<b>Fund Balance - December 31</b>	<b>31,605.65</b>	<b>31,605.65</b>	<b>19,184.19</b>	<b>(12,421.46)</b>

CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Sales and Use Tax Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	62,500.00	62,500.00	66,273.56	3,773.56
Miscellaneous			11,357.70	11,357.70
<b>Total Revenues</b>	<b>62,500.00</b>	<b>62,500.00</b>	<b>77,631.26</b>	<b>15,131.26</b>
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	65,000.00	65,000.00	81,603.69	(16,603.69)
Culture and Recreation			4,125.00	(4,125.00)
Other			13,330.19	(13,330.19)
<b>Total Expenditures</b>	<b>65,000.00</b>	<b>65,000.00</b>	<b>99,058.88</b>	<b>(34,058.88)</b>
<b>Net Change in Fund Balances</b>	<b>(2,500.00)</b>	<b>(2,500.00)</b>	<b>(21,427.62)</b>	<b>(18,927.62)</b>
<b>Fund Balance - January 1</b>	<b>330,354.04</b>	<b>330,354.04</b>	<b>330,354.04</b>	
<b>Fund Balance - December 31</b>	<b>327,854.04</b>	<b>327,854.04</b>	<b>308,926.42</b>	<b>(18,927.62)</b>

CITY OF STEELE  
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Sales and Use Tax Fund  
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	180,000.00	180,000.00	171,429.67	(8,570.33)
Miscellaneous			18,180.55	18,180.55
<b>Total Revenues</b>	<b>180,000.00</b>	<b>180,000.00</b>	<b>189,610.22</b>	<b>9,610.22</b>
<u>Expenditures:</u>				
Current:				
Health and Welfare	195,000.00	195,000.00	72,491.64	122,508.36
Urban and Economic Development			31,284.60	(31,284.60)
<b>Total Expenditures</b>	<b>195,000.00</b>	<b>195,000.00</b>	<b>103,776.24</b>	<b>91,223.76</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(15,000.00)</b>	<b>(15,000.00)</b>	<b>85,833.98</b>	<b>100,833.98</b>
<u>Other Financing (Uses):</u>				
Bad Debt Expense for Advance			(20,500.00)	(20,500.00)
<b>Net Change in Fund Balances</b>	<b>(15,000.00)</b>	<b>(15,000.00)</b>	<b>65,333.98</b>	<b>80,333.98</b>
<b>Fund Balance - January 1</b>	<b>265,020.06</b>	<b>265,020.06</b>	<b>265,020.06</b>	
<b>Fund Balance - December 31</b>	<b>250,020.06</b>	<b>250,020.06</b>	<b>330,354.04</b>	<b>80,333.98</b>



CITY OF STEELE  
Steele, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2018 and 2017

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general and special revenue funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2018 and 2017.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<u>Special Revenue Funds</u>		
Street		51,576.05
Sales and Use Tax	34,058.88	

No remedial action is anticipated or required by the city regarding these excess expenditures.

CITY OF STEELE  
Steele, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2018

	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<b>Major Governmental Funds:</b>						
<u>General Fund</u>						
Operating	6,791.08	234,394.04		21,500.00	212,275.08	7,410.04
Horizon	602.28					602.28
Safe Route	32,521.79			4,740.00		27,781.79
<b>Total General Fund</b>	<b>39,915.15</b>	<b>234,394.04</b>		<b>26,240.00</b>	<b>212,275.08</b>	<b>35,794.11</b>
<u>Street Fund</u>						
Street Operating	19,184.19	336,317.20	4,740.00	34,961.00	251,927.95	73,352.44
2018 Street/Water Project		643,054.00			643,054.00	
Shop Reserve			43,961.00			43,961.00
Sales and Use Tax	200,454.66	88,913.84			99,058.88	190,309.62
<b>Total Major Governmental Funds</b>	<b>259,554.00</b>	<b>1,302,679.08</b>	<b>48,701.00</b>	<b>61,201.00</b>	<b>1,206,315.91</b>	<b>343,417.17</b>
<u>Non-Major Governmental Funds:</u>						
Visitor Promotion	36,326.00	7,667.70			9,647.50	34,346.20
150th Celebration	3,123.47	1.56				3,125.03
<b>Total Non-Major Governmental Funds</b>	<b>39,449.47</b>	<b>7,669.26</b>			<b>9,647.50</b>	<b>37,471.23</b>
<b>Total Governmental Funds</b>	<b>299,003.47</b>	<b>1,310,348.34</b>	<b>48,701.00</b>	<b>61,201.00</b>	<b>1,215,963.41</b>	<b>380,888.40</b>
<u>Major Enterprise Funds:</u>						
<u>Water Fund</u>						
Operating	54,230.49	260,995.11	27,000.00	12,684.00	284,974.31	44,567.29
Water Filter	31,800.00					31,800.00
Water Reserve	49,017.00		3,684.00			52,701.00
Sewer	33,560.44	27,643.32		5,500.00	23,159.41	32,544.35
Garbage	11,103.66	136,994.46			136,200.17	11,897.95
<b>Total Major Enterprise Funds</b>	<b>179,711.59</b>	<b>425,632.89</b>	<b>30,684.00</b>	<b>18,184.00</b>	<b>444,333.89</b>	<b>173,510.59</b>
<u>Agency Fund</u>						
CDBG #272-CD1617-H		52,770.50			52,770.50	
<b>Total All Funds</b>	<b>478,715.06</b>	<b>1,788,751.73</b>	<b>79,385.00</b>	<b>79,385.00</b>	<b>1,713,067.80</b>	<b>554,398.99</b>

CITY OF STEELE  
Steele, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2017

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
<b>Major Governmental Funds:</b>						
<u>General Fund</u>						
Operating	5,695.47	222,760.43		20,000.00	201,664.82	6,791.08
Horizon	602.28					602.28
Safe Route	32,521.79					32,521.79
<b>Total General Fund</b>	<b>38,819.54</b>	<b>222,760.43</b>		<b>20,000.00</b>	<b>201,664.82</b>	<b>39,915.15</b>
<u>Street Sales and Use Tax</u>						
Street	44,765.65	185,994.59			211,576.05	19,184.19
Sales and Use Tax	202,361.48	211,600.17		109,730.75	103,776.24	200,454.66
<b>Total Major Governmental Funds</b>	<b>285,946.67</b>	<b>620,355.19</b>		<b>129,730.75</b>	<b>517,017.11</b>	<b>259,554.00</b>
<b>Non-Major Governmental Funds:</b>						
Visitor Promotion	36,940.38	8,388.62			9,003.00	36,326.00
150th Celebration	3,121.92	1.55				3,123.47
<b>Total Non-Major Governmental Funds</b>	<b>40,062.30</b>	<b>8,390.17</b>			<b>9,003.00</b>	<b>39,449.47</b>
<b>Total Governmental Funds</b>	<b>326,008.97</b>	<b>628,745.36</b>		<b>129,730.75</b>	<b>526,020.11</b>	<b>299,003.47</b>
<b>Major Enterprise Funds:</b>						
<u>Water Fund</u>						
Operating	91,639.62	253,789.06	135,730.75	15,684.00	411,244.94	54,230.49
Water Filter	19,800.00		12,000.00			31,800.00
Water Reserve	45,333.00		3,684.00			49,017.00
Sewer	44,419.67	30,079.24		6,000.00	34,938.47	33,560.44
Garbage	11,314.78	134,042.39			134,253.51	11,103.66
<b>Total Major Enterprise Funds</b>	<b>212,507.07</b>	<b>417,910.69</b>	<b>151,414.75</b>	<b>21,684.00</b>	<b>580,436.92</b>	<b>179,711.59</b>
<b>Total All Funds</b>	<b>538,516.04</b>	<b>1,046,656.05</b>	<b>151,414.75</b>	<b>151,414.75</b>	<b>1,106,457.03</b>	<b>478,715.06</b>



# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

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Bismarck, ND 58501

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Steele  
Steele, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated September 6, 2019.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the city'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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 6, 2019

CITY OF STEELE  
Steele, North Dakota

Schedule of Findings and Responses  
For the Years Ended December 31, 2018 and 2017

**SECTION I - SUMMARY OF AUDIT RESULTS:**

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

\* Material weakness(es) identified?             Yes        X   No

\* Significant deficiency(ies) identified?        X   Yes             None Reported

Noncompliance Material to financial  
statements noted?             Yes        X   No

**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. 2018-001 Segregation of Duties

*Condition:* The city has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

*Criteria:* To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

*Cause:* The city does not have a large enough staff to properly segregate all duties.

*Effect:* A lack of segregation of duties leads to a limited degree of internal control.

*Recommendation:* Segregation of duties would provide better control over the assets of the city. However, due to the size of the city, it is not feasible to obtain proper separation of duties. These functions should be monitored by the Governing Board.

*Views of Responsible Officials and Planned Corrective Actions:* The city is aware of the condition and segregates duties whenever possible.



2. 2018-002 Financial Statement Preparation

*Condition:* The city's financial statements, including the accompanying note disclosures, are prepared by the city's external auditors.

*Criteria:* A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

*Cause:* The city does not have the internal expertise needed to handle all aspects of the external financial reporting.

*Effect:* Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

*Recommendation:* For entities of the city's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Views of Responsible Officials and Planned Corrective Actions:* The city will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.