

AUDIT REPORT

CITY OF STEELE
Steele, North Dakota

For the Years Ended December 31, 2020 and 2019

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STEELE
Steele, North Dakota

TABLE OF CONTENTS
For the Years Ended December 31, 2020 and 2019

	<u>Page(s)</u>
Officials	1
Independent Auditor's Report	2-3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	4,5
Statement of Activities - Modified Cash Basis	6,7
Balance Sheet - Modified Cash Basis - Governmental Funds	8,9
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	10,11
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	12,13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	14,15
Statement of Net Position - Modified Cash Basis - Proprietary Funds	16,17
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	18,19
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	20,21
Statement of Fiduciary Net Position - Modified Cash Basis - Fiduciary Fund	22
Statement of Changes in Fiduciary Net Position - Modified Cash Basis - Fiduciary Fund	23
Notes to the Financial Statements	24-36
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules - Modified Cash Basis	
General Fund	37,38
Street Fund	39,40
Sales and Use Tax Fund	41,42
Notes to the Budgetary Comparison Schedules	43
Schedule of Fund Activity Arising from Cash Transactions	44,45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	46-47
Schedule of Findings and Responses	48-49

CITY OF STEELE
Steele, North Dakota

CITY OFFICIALS

Jonathan Harter	Mayor
Bob Anderson	Council Member
Jorey Kartes	Council Member
Jerrud Larson	Council Member
Luke Reski	Council Member
Josh Rode	Council Member
Jason Rutledge	Council Member
Norm Fries	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

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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, 2020 and 2019, 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, 2020 and 2019, 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 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 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 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 3, 2021 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 3, 2021

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	539,597.32	297,417.17	837,014.49
Advance to Water Fund	92,752.96		92,752.96
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	993,241.00	1,242,394.00	2,235,635.00
Machinery and Vehicles	79,045.00	19,800.00	98,845.00
Total Capital Assets	1,112,286.00	1,262,194.00	2,374,480.00
Total Assets	1,744,636.28	1,559,611.17	3,304,247.45
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable	105,000.00	19,500.00	124,500.00
Due After One Year:			
Advance from Sales and Use Tax Fund		92,752.96	92,752.96
Revenue Bonds Payable	860,000.00	609,900.00	1,469,900.00
Total Liabilities	965,000.00	722,152.96	1,687,152.96
NET POSITION:			
Net Investment in Capital Assets	147,286.00	540,041.04	687,327.04
Restricted for:			
Debt Service		60,069.00	60,069.00
Special Purposes	623,788.44		623,788.44
Unrestricted	8,561.84	237,348.17	245,910.01
Total Net Position	779,636.28	837,458.21	1,617,094.49

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, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	783,038.18	202,461.94	985,500.12
Economic Development Loans Receivable	13,070.99		13,070.99
Advance to Water Fund	99,760.16		99,760.16
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	1,044,415.00	1,295,710.00	2,340,125.00
Machinery and Vehicles	105,181.00	23,100.00	128,281.00
 Total Capital Assets	 1,189,596.00	 1,318,810.00	 2,508,406.00
 Total Assets	 2,085,465.33	 1,521,271.94	 3,606,737.27
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable	110,000.00	19,000.00	129,000.00
Due After One Year:			
Advance from Sales and Use Tax Fund		99,760.16	99,760.16
Revenue Bonds Payable	965,000.00	629,400.00	1,594,400.00
 Total Liabilities	 1,075,000.00	 748,160.16	 1,823,160.16
NET POSITION:			
Net Investment in Capital Assets	114,596.00	570,649.84	685,245.84
Restricted for:			
Debt Service		56,385.00	56,385.00
Special Purposes	887,475.11		887,475.11
Unrestricted	8,394.22	146,076.94	154,471.16
 Total Net Position	 1,010,465.33	 773,111.78	 1,783,577.11

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, 2020

	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>					
Primary Government:					
<u>Governmental Activities:</u>					
General Government	118,744.85	3,977.00		(114,767.85)	(114,767.85)
Public Safety	96,503.84	1,264.00		(95,239.84)	(95,239.84)
Streets and Public Works	571,788.62	30,621.10	75,494.36	(465,673.16)	(465,673.16)
Health and Welfare	1,012.20			(1,012.20)	(1,012.20)
Urban and Economic Development	149,362.23			(149,362.23)	(149,362.23)
Interest on Long-Term Debt	27,190.00		44,780.42	17,590.42	17,590.42
Total Governmental Activities	964,601.74	35,862.10	120,274.78	(808,464.86)	(808,464.86)
<u>Business-Type Activities:</u>					
Water Operating	229,205.12	251,044.92	51,924.30	73,764.10	73,764.10
Sewer Operating	43,518.50	25,904.70		(17,613.80)	(17,613.80)
Garbage Operating	146,706.30	146,896.30		190.00	190.00
Total Business-Type Activities	419,429.92	423,845.92	51,924.30	56,340.30	56,340.30
Total Primary Government	1,384,031.66	459,708.02	172,199.08	(808,464.86)	(752,124.56)
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes			147,519.58		147,519.58
Sales taxes			339,336.56		339,336.56
Occupancy taxes			9,696.05		9,696.05
Telecom taxes			1,899.21		1,899.21
Cigarette taxes			1,883.38		1,883.38
Homestead credit taxes			8,195.19		8,195.19
Disabled veterans credit taxes			2,108.14		2,108.14
Intergovernmental revenue not restricted to specific programs			54,277.99		54,277.99
Earnings on investments and other revenue			20,719.71	6.13	20,725.84
Transfers			(8,000.00)	8,000.00	
Total General Revenues and Transfers			577,635.81	8,006.13	585,641.94
Change in Net Position			(230,829.05)	64,346.43	(166,482.62)
Net Position - January 1			1,010,465.33	773,111.78	1,783,577.11
Net Position - December 31			779,636.28	837,458.21	1,617,094.49

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, 2019

Functions/Programs	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
Primary Government:					
Governmental Activities:					
General Government	107,464.79	3,001.00		(104,463.79)	(104,463.79)
Public Safety	93,327.28	556.12		(92,771.16)	(92,771.16)
Streets and Public Works	275,277.20	15,135.08	84,810.28	(175,331.84)	(175,331.84)
Health and Welfare	1,012.20			(1,012.20)	(1,012.20)
Urban and Economic Development	52,693.47			(52,693.47)	(52,693.47)
Interest on Long-Term Debt	41,474.45		44,855.47	3,381.02	3,381.02
Total Governmental Activities	571,249.39	18,692.20	129,665.75	(422,891.44)	(422,891.44)
Business-Type Activities:					
Water	264,707.98	250,505.77		(14,202.21)	(14,202.21)
Sewer	14,592.18	23,850.78		9,258.60	9,258.60
Garbage	143,430.58	144,885.29		1,454.71	1,454.71
Total Business-Type Activities	422,730.74	419,241.84		(3,488.90)	(3,488.90)
Total Primary Government	993,980.13	437,934.04	129,665.75	(422,891.44)	(426,380.34)
General Revenues:					
Taxes:					
Property taxes; levied for general purposes			141,067.55		141,067.55
Sales taxes			299,001.02		299,001.02
Occupancy taxes			6,864.99		6,864.99
Telecom taxes			1,899.21		1,899.21
Cigarette taxes			1,882.53		1,882.53
Homestead credit taxes			7,365.06		7,365.06
Disabled veterans credit taxes			1,711.76		1,711.76
Intergovernmental revenue not restricted to specific programs			60,395.53		60,395.53
Earnings on investments and other revenue			26,463.84	9.90	26,473.74
Total General Revenues			546,651.49	9.90	546,661.39
Change in Net Position			123,760.05	(3,479.00)	120,281.05
Net Position - January 1			886,705.28	776,590.78	1,663,296.06
Net Position - December 31			1,010,465.33	773,111.78	1,783,577.11

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, 2020

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<u>ASSETS:</u>					
Cash, Cash Equivalents and Investments	36,945.91	255,777.50	220,304.56	26,569.35	539,597.32
Advance to Water Fund			92,752.96		92,752.96
<hr/>					
Total Assets	36,945.91	255,777.50	313,057.52	26,569.35	632,350.28
<hr style="border-top: 1px dashed black;"/>					
<u>FUND BALANCES</u>					
Nonspendable:					
Advance to Water Fund			92,752.96		92,752.96
Restricted for:					
Streets and Public Works		255,777.50			255,777.50
Urban and Economic Development			220,304.56	23,439.33	243,743.89
Horizon Project	602.28				602.28
Safe Route	27,781.79				27,781.79
150th Celebration				3,130.02	3,130.02
Unassigned	8,561.84				8,561.84
<hr/>					
Total Fund Balances	36,945.91	255,777.50	313,057.52	26,569.35	632,350.28
<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, 2019

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
ASSETS:					
Cash, Cash Equivalents and Investments	36,778.29	472,028.20	237,956.52	36,275.17	783,038.18
Economic Development Loans Receivable			13,070.99		13,070.99
Advance to Water Fund			99,760.16		99,760.16
<hr/>					
Total Assets	36,778.29	472,028.20	350,787.67	36,275.17	895,869.33
<hr style="border-top: 1px dashed black;"/>					
FUND BALANCES					
Nonspendable:					
Economic Development Loans			13,070.99		13,070.99
Advance to Water Fund			99,760.16		99,760.16
Restricted for:					
Streets and Public Works		472,028.20			472,028.20
Urban and Economic Development			237,956.52	33,147.05	271,103.57
Horizon Project	602.28				602.28
Safe Route	27,781.79				27,781.79
150th Celebration				3,128.12	3,128.12
Unassigned	8,394.22				8,394.22
<hr/>					
Total Fund Balances	36,778.29	472,028.20	350,787.67	36,275.17	895,869.33
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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, 2020

Total Fund Balances for Governmental Funds		632,350.28
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	2,284,298.00	
Less Accumulated Depreciation	(1,172,012.00)	
Net Capital Assets		1,112,286.00
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, 2020 are:		
Revenue Bonds Payable		(965,000.00)
Total Net Position of Governmental Activities		779,636.28

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, 2019

Total Fund Balances for Governmental Funds		895,869.33
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	2,284,298.00	
Less Accumulated Depreciation	(1,094,702.00)	
Net Capital Assets		1,189,596.00
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, 2019 are:		
Revenue Bonds Payable		(1,075,000.00)
Total Net Position of Governmental Activities		1,010,465.33

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, 2020

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
Revenues:					
Taxes	149,418.79	254,502.40	84,834.16	9,696.05	498,451.40
Special Assessments	3,447.92	41,332.50			44,780.42
Licenses, Permits and Fees	3,977.00				3,977.00
Intergovernmental	66,464.70	75,494.36			141,959.06
Charges for Services	17,743.50	12,877.60			30,621.10
Fines and Forfeitures	1,264.00				1,264.00
Miscellaneous	12,220.13	2,941.53	5,271.19	286.86	20,719.71
Total Revenues	254,536.04	387,148.39	90,105.35	9,982.91	741,772.69
Expenditures:					
Current:					
General Government	116,355.85				116,355.85
Public Safety	92,052.84				92,052.84
Streets and Public Works	36,947.53	466,209.09			503,156.62
Health and Welfare	1,012.20				1,012.20
Urban and Economic Development			125,114.51	15,688.73	140,803.24
Debt Service:					
Principal		110,000.00			110,000.00
Interest and Service Charges		27,190.00			27,190.00
Total Expenditures	246,368.42	603,399.09	125,114.51	15,688.73	990,570.75
Excess (Deficiency) of Revenues Over Expenditures	8,167.62	(216,250.70)	(35,009.16)	(5,705.82)	(248,798.06)
Other Financing Sources (Uses):					
Transfers In			4,000.00		4,000.00
Transfers Out	(8,000.00)			(4,000.00)	(12,000.00)
Bad Debt Expense for ED Loan			(6,720.99)		(6,720.99)
Total Other Financing Sources (Uses)	(8,000.00)		(2,720.99)	(4,000.00)	(14,720.99)
Net Change in Fund Balances	167.62	(216,250.70)	(37,730.15)	(9,705.82)	(263,519.05)
Fund Balance - January 1	36,778.29	472,028.20	350,787.67	36,275.17	895,869.33
Fund Balance - December 31	36,945.91	255,777.50	313,057.52	26,569.35	632,350.28

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, 2019

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<u>Revenues:</u>					
Taxes	142,966.76	224,250.77	74,750.25	6,864.99	448,832.77
Special Assessments		44,855.47			44,855.47
Licenses, Permits and Fees	3,001.00				3,001.00
Intergovernmental	71,354.88	84,810.28			156,165.16
Charges for Services	8,500.00	6,635.08			15,135.08
Fines and Forfeitures		556.12			556.12
Miscellaneous	14,387.58	2,170.84	9,289.48	615.94	26,463.84
Total Revenues	240,766.34	362,722.44	84,039.73	7,480.93	695,009.44
<u>Expenditures:</u>					
Current:					
General Government	105,078.79				105,078.79
Public Safety	88,874.28				88,874.28
Streets and Public Works	27,816.89	175,478.31			203,295.20
Health and Welfare	1,012.20				1,012.20
Urban and Economic Development			42,178.48	8,676.99	50,855.47
Debt Service:					
Principal		663,054.92			663,054.92
Interest and Service Charges		28,649.45			28,649.45
Total Expenditures	222,782.16	867,182.68	42,178.48	8,676.99	1,140,820.31
Excess (Deficiency) of Revenues Over Expenditures	17,984.18	(504,460.24)	41,861.25	(1,196.06)	(445,810.87)
<u>Other Financing Sources (Uses):</u>					
Transfers In		60,961.00			60,961.00
Transfers Out	(17,000.00)	(43,961.00)			(60,961.00)
Revenue Bonds Issued		855,000.00			855,000.00
Discount on Revenue Bonds		(12,825.00)			(12,825.00)
Total Other Financing Sources (Uses)	(17,000.00)	859,175.00			842,175.00
Net Change in Fund Balances	984.18	354,714.76	41,861.25	(1,196.06)	396,364.13
Fund Balance - January 1	35,794.11	117,313.44	308,926.42	37,471.23	499,505.20
Fund Balance - December 31	36,778.29	472,028.20	350,787.67	36,275.17	895,869.33

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, 2020

Net Change in Fund Balances - Total Governmental Funds (263,519.05)

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	0.00	
Current Year Depreciation Expense	(77,310.00)	(77,310.00)

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	110,000.00	110,000.00

Change in Net Position of Governmental Activities (230,829.05)

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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, 2019

Net Change in Fund Balances - Total Governmental Funds 396,364.13

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	0.00	
Current Year Depreciation Expense	(80,659.00)	(80,659.00)

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	(855,000.00)	
Repayment of Debt	663,054.92	(191,945.08)

Change in Net Position of Governmental Activities 123,760.05
=====

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, 2020

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	252,239.36	31,635.15	13,542.66	297,417.17
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,107,657.00	134,737.00		1,242,394.00
Machinery and Vehicles		19,800.00		19,800.00
Total Noncurrent Assets	1,107,657.00	154,537.00		1,262,194.00
Total Assets	1,359,896.36	186,172.15	13,542.66	1,559,611.17
LIABILITIES				
Current Liabilities:				
Revenue Bonds Payable	19,500.00			19,500.00
Noncurrent Liabilities:				
Advance from Sales and Use Tax Fund	92,752.96			92,752.96
Revenue Bonds Payable	609,900.00			609,900.00
Total Noncurrent Liabilities	702,652.96			702,652.96
Total Liabilities	722,152.96			722,152.96
NET POSITION				
Net Investment in Capital Assets	385,504.04	154,537.00		540,041.04
Restricted for Debt Service	60,069.00			60,069.00
Unrestricted	192,170.36	31,635.15	13,542.66	237,348.17
Total Net Position	637,743.40	186,172.15	13,542.66	837,458.21

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, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
<u>Current Assets:</u>				
Cash and Cash Equivalents	143,468.33	45,640.95	13,352.66	202,461.94
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,155,665.00	140,045.00		1,295,710.00
Machinery and Vehicles		23,100.00		23,100.00
Total Noncurrent Assets	1,155,665.00	163,145.00		1,318,810.00
Total Assets	1,299,133.33	208,785.95	13,352.66	1,521,271.94
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	19,000.00			19,000.00
<u>Noncurrent Liabilities:</u>				
Advance from Sales and Use Tax Fund	99,760.16			99,760.16
Revenue Bonds Payable	629,400.00			629,400.00
Total Noncurrent Liabilities	729,160.16			729,160.16
Total Liabilities	748,160.16			748,160.16
<u>NET POSITION</u>				
Net Investment in Capital Assets	407,504.84	163,145.00		570,649.84
Restricted for Debt Service	56,385.00			56,385.00
Unrestricted	87,083.33	45,640.95	13,352.66	146,076.94
Total Net Position	550,973.17	208,785.95	13,352.66	773,111.78

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, 2020

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	245,460.80			245,460.80
Sewer Collections		25,904.70		25,904.70
Garbage Collections			140,345.97	140,345.97
Garbage Surcharge			2,462.24	2,462.24
Other Collections	5,584.12		4,088.09	9,672.21
Total Operating Revenues	251,044.92	25,904.70	146,896.30	423,845.92
<u>Operating Expenses:</u>				
Water Department	158,781.28			158,781.28
Sewer Department		34,910.50		34,910.50
Garbage Department			146,706.30	146,706.30
Depreciation	48,008.00	8,608.00		56,616.00
Total Operating Expenses	206,789.28	43,518.50	146,706.30	397,014.08
Operating Income (Loss)	44,255.64	(17,613.80)	190.00	26,831.84
<u>Non-Operating Revenues (Expenses):</u>				
Interest	6.13			6.13
Coronavirus Funding	51,924.30			51,924.30
Debt Service - Interest and Service Charges	(22,415.84)			(22,415.84)
Total Non-Operating Revenues (Expenses)	29,514.59			29,514.59
Income (Loss) Before Transfers	73,770.23	(17,613.80)	190.00	56,346.43
Transfers In	25,184.00			25,184.00
Transfers Out	(12,184.00)	(5,000.00)		(17,184.00)
Change in Net Position	86,770.23	(22,613.80)	190.00	64,346.43
Net Position - January 1	550,973.17	208,785.95	13,352.66	773,111.78
Net Position - December 31	637,743.40	186,172.15	13,542.66	837,458.21

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, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	245,669.70			245,669.70
Sewer Collections		23,850.78		23,850.78
Garbage Collections			138,172.83	138,172.83
Garbage Surcharge			2,537.88	2,537.88
Other Collections	4,836.07		4,174.58	9,010.65
Total Operating Revenues	250,505.77	23,850.78	144,885.29	419,241.84
<u>Operating Expenses:</u>				
Water Department	193,476.20			193,476.20
Sewer Department		5,984.18		5,984.18
Garbage Department			143,430.58	143,430.58
Depreciation	48,008.00	8,608.00		56,616.00
Total Operating Expenses	241,484.20	14,592.18	143,430.58	399,506.96
Operating Income (Loss)	9,021.57	9,258.60	1,454.71	19,734.88
<u>Non-Operating Revenues (Expenses):</u>				
Interest	9.90			9.90
Debt Service - Interest and Service Charges	(23,223.78)			(23,223.78)
Total Non-Operating Revenues (Expenses)	(23,213.88)			(23,213.88)
Income (Loss) Before Transfers	(14,192.31)	9,258.60	1,454.71	(3,479.00)
Transfers In	20,454.00			20,454.00
Transfers Out	(15,684.00)	(4,770.00)		(20,454.00)
Change in Net Position	(9,422.31)	4,488.60	1,454.71	(3,479.00)
Net Position - January 1	560,395.48	204,297.35	11,897.95	776,590.78
Net Position - December 31	550,973.17	208,785.95	13,352.66	773,111.78

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, 2020

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	251,044.92	25,904.70	146,896.30	423,845.92
Payments to suppliers and employees	(158,781.28)	(34,910.50)	(146,706.30)	(340,398.08)
Net cash provided (used) by operating activities	92,263.64	(9,005.80)	190.00	83,447.84
<u>Cash flows from noncapital financing activities:</u>				
Coronavirus funding	51,924.30			51,924.30
Transfers in	25,184.00			25,184.00
Transfers out	(12,184.00)	(5,000.00)		(17,184.00)
Net cash provided (used) by noncapital financing activities	64,924.30	(5,000.00)		59,924.30
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(26,007.20)			(26,007.20)
Interest and service charges	(22,415.84)			(22,415.84)
Net cash provided (used) by capital and related financing activities	(48,423.04)			(48,423.04)
<u>Cash flows from investing activities:</u>				
Interest income	6.13			6.13
Net increase in cash and cash equivalents	108,771.03	(14,005.80)	190.00	94,955.23
Cash and cash equivalents, January 1	143,468.33	45,640.95	13,352.66	202,461.94
Cash and cash equivalents, December 31	252,239.36	31,635.15	13,542.66	297,417.17
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	44,255.64	(17,613.80)	190.00	26,831.84
<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	92,263.64	(9,005.80)	190.00	83,447.84
=====				

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, 2019

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	250,505.77	23,850.78	144,885.29	419,241.84
Payments to suppliers and employees	(193,476.20)	(5,984.18)	(143,430.58)	(342,890.96)
Net cash provided (used) by operating activities	57,029.57	17,866.60	1,454.71	76,350.88
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	20,454.00			20,454.00
Transfers out	(15,684.00)	(4,770.00)		(20,454.00)
Net cash provided (used) by noncapital financing activities	4,770.00	(4,770.00)		
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(24,185.65)			(24,185.65)
Interest and service charges	(23,223.78)			(23,223.78)
Net cash provided (used) by capital and related financing activities	(47,409.43)			(47,409.43)
<u>Cash flows from investing activities:</u>				
Interest income	9.90			9.90
Net increase in cash and cash equivalents	14,400.04	13,096.60	1,454.71	28,951.35
Cash and cash equivalents, January 1	129,068.29	32,544.35	11,897.95	173,510.59
Cash and cash equivalents, December 31	143,468.33	45,640.95	13,352.66	202,461.94
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	9,021.57	9,258.60	1,454.71	19,734.88
<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	57,029.57	17,866.60	1,454.71	76,350.88
=====				

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

CITY OF STEELE
Steele, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2020 and 2019

	Custodial Fund	
	12-31-2020	12-31-2019
<u>Assets:</u>		
Cash, Cash Equivalents and Investments	20.00	20.00
<u>Liabilities:</u>		
Due to Nonprofit Organization	20.00	20.00
 Net Position	0.00	0.00

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

CITY OF STEELE
Steele, North Dakota

Statement of Changes in Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2020 and 2019

	Custodial Fund	
	2020	2019
<u>Additions:</u>		
Community Development Block Grant #4621-CD19-H	47,500.00	
<u>Deductions:</u>		
Payment to Steele Housing Project	47,500.00	
Change in Net Position	0.00	0.00
Net Position - January 1	0.00	0.00
Net Position - December 31	0.00	0.00

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

CITY OF STEELE
Steele, North Dakota

Notes to the Financial Statements
December 31, 2020 and 2019

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 including its fiduciary fund. Separate statements for each fund category - *governmental, proprietary and fiduciary* - 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.

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 type of fiduciary fund:

Custodial 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 custodial fund is used to account for a community development block grant received on behalf of the Steele Housing Project.

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, 2020 the city's carrying amount of deposits was \$837,035 and the bank balance was \$891,714. Of the bank balance, \$486,637 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$405,077 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2019 the city's carrying amount of deposits was \$985,520 and the bank balance was \$1,008,955. Of the bank balance, \$500,000 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$508,955 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, 2020 the city held certificates of deposit in the amount of \$17,106, which are all considered deposits.

At December 31, 2019 the city held certificates of deposit in the amount of \$16,827, 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 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%.

2020

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-Type Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	33,000			33,000
Total	<u>2,141,124</u>			<u>2,141,124</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	812,414	53,316		865,730
Machinery and Vehicles	9,900	3,300		13,200
Total	<u>822,314</u>	<u>56,616</u>		<u>878,930</u>
Business-Type Activities Capital Assets, Net	<u>1,318,810</u>	<u>(56,616)</u>	-0-	<u>1,262,194</u>
	=====	=====	=====	=====

2019

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-Type Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	33,000			33,000
Total	<u>2,141,124</u>			<u>2,141,124</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	759,098	53,316		812,414
Machinery and Vehicles	6,600	3,300		9,900
Total	<u>765,698</u>	<u>56,616</u>		<u>822,314</u>
Business-Type Activities Capital Assets, Net	<u>1,375,426</u>	<u>(56,616)</u>	-0-	<u>1,318,810</u>
	=====	=====	=====	=====

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

	<u>2020</u>	<u>2019</u>
<u>Governmental Activities:</u>		
General Government	2,389	2,386
Public Safety	4,451	4,453
Streets and Public Works	68,632	71,982
Urban and Econ. Develop.	1,838	1,838
Total	<u>77,310</u>	<u>80,659</u>
	=====	=====
<u>Business-Type Activities:</u>		
Combined Water	48,008	48,008
Sewer Operating	8,608	9,108
Total	<u>56,616</u>	<u>57,116</u>
	=====	=====

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2020 and 2019, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>2020</u>			Balance	Due Within
	Balance	Increases	Decreases	December 31	One Year
	January 1				
Revenue Bonds Payable	1,075,000	-0-	110,000	965,000	105,000
	=====	=====	=====	=====	=====

2019

	Balance	Increases	Decreases	Balance	Due Within
	January 1			December 31	One Year
Bank Loans Payable	628,055		628,055		
Revenue Bonds Payable	255,000	855,000	35,000	1,075,000	110,000
Total	<u>883,055</u>	<u>855,000</u>	<u>663,055</u>	<u>1,075,000</u>	<u>105,000</u>
	=====	=====	=====	=====	=====

Business-Type Activities

2020

	Balance	Increases	Decreases	Balance	Due Within
	January 1			December 31	One Year
Revenue Bonds Payable	648,400	-0-	19,000	629,400	19,500
	=====	=====	=====	=====	=====

2019

	Balance	Increases	Decreases	Balance	Due Within
	January 1			December 31	One Year
Revenue Bonds Payable	666,800	-0-	18,400	648,400	19,000
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2020 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, 2020, is as follows:

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, 2020 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%.	185,000.00
\$855,000 Sales Tax Revenue Bonds, Series 2019 due in annual installments of \$70,000 to \$85,000 through May 1, 2030; interest is at 1.80% to 2.25%.	780,000.00
Total Revenue Bonds Payable	965,000.00 =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	105,000.00	19,520.00
2022	110,000.00	17,340.00
2023	110,000.00	15,115.00
2024	115,000.00	12,890.00
2025	115,000.00	10,540.00
2026-2030	410,000.00	23,220.00
Total	965,000.00 =====	98,625.00 =====

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, 2020 are as follows:

\$875,000 Water Improvement Revenue Bonds of 2003, Series A due in annual installments of \$19,500 to \$36,300 through July 11, 2043; interest is at 3%.	629,400.00 =====
--	---------------------

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>
2021	19,500.00	18,882.00
2022	20,100.00	18,297.00
2023	20,700.00	17,694.00
2024	21,300.00	17,073.00
2025	22,000.00	16,434.00
2026-2030	120,100.00	71,880.00
2031-2035	139,200.00	52,752.00
2036-2040	161,300.00	30,582.00
2041-2043	105,200.00	6,267.00
 Total	 <u>629,400.00</u>	 <u>249,861.00</u>
	=====	=====

Note 7 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, 2020</u>		
Sales and Use Tax	4,000.00	
Visitor Promotion		4,000.00
Water Operating	13,000.00	
General Operating		8,000.00
Sewer		5,000.00
To subsidize expenditures.		
Water Filter	8,500.00	
Water Reserve	3,684.00	
Water Operating		12,184.00
To set-aside funds for reserves.		
<u>December 31, 2019</u>		
Street	60,961.00	
General Operating		17,000.00
Shop Reserve		43,961.00
To set-aside funds for new shop.		
Water Operating	4,770.00	
Sewer		4,770.00
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 8 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 (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDRF for its general liability, automobile and public assets insurance coverage. The coverage by NDRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$392,964 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 \$585,788 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.

Note 9 TAX ABATEMENTS

The city has not entered into any tax abatement agreements that would reduce the city's tax revenues for the years ended December 31, 2020 or 2019.

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	154,717.00	154,717.00	149,418.79	(5,298.21)
Special Assessments			3,447.92	3,447.92
Licenses, Permits and Fees	2,760.00	2,760.00	3,977.00	1,217.00
Intergovernmental	59,400.00	59,400.00	66,464.70	7,064.70
Charges for Services	10,000.00	10,000.00	17,743.50	7,743.50
Fines and Forfeitures	550.00	550.00	1,264.00	714.00
Miscellaneous	7,350.00	7,350.00	12,220.13	4,870.13
Total Revenues	234,777.00	234,777.00	254,536.04	19,759.04
<u>Expenditures:</u>				
Current:				
General Government	129,227.00	129,227.00	116,355.85	12,871.15
Public Safety	76,450.00	76,450.00	92,052.84	(15,602.84)
Streets and Public Works	33,000.00	33,000.00	36,947.53	(3,947.53)
Health and Welfare	1,150.00	1,150.00	1,012.20	137.80
Total Expenditures	239,827.00	239,827.00	246,368.42	(6,541.42)
Excess (Deficiency) of Revenues Over Expenditures	(5,050.00)	(5,050.00)	8,167.62	13,217.62
<u>Other Financing (Uses):</u>				
Transfers Out			(8,000.00)	(8,000.00)
Net Change in Fund Balances	(5,050.00)	(5,050.00)	167.62	5,217.62
Fund Balance - January 1	36,778.29	36,778.29	36,778.29	
Fund Balance - December 31	31,728.29	31,728.29	36,945.91	5,217.62

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	146,580.00	146,580.00	142,966.76	(3,613.24)
Licenses, Permits and Fees	2,760.00	2,760.00	3,001.00	241.00
Intergovernmental	49,400.00	49,400.00	71,354.88	21,954.88
Charges for Services	10,000.00	10,000.00	8,500.00	(1,500.00)
Fines and Forfeitures	550.00	550.00	556.12	6.12
Miscellaneous	8,350.00	8,350.00	14,387.58	6,037.58
Total Revenues	217,640.00	217,640.00	240,766.34	23,126.34
<u>Expenditures:</u>				
Current:				
General Government	117,935.00	117,935.00	105,078.79	12,856.21
Public Safety	78,000.00	78,000.00	88,874.28	(10,874.28)
Streets and Public Works	31,000.00	31,000.00	27,816.89	3,183.11
Health and Welfare	1,150.00	1,150.00	1,012.20	137.80
Total Expenditures	228,085.00	228,085.00	222,782.16	5,302.84
Excess (Deficiency) of Revenues Over Expenditures	(10,445.00)	(10,445.00)	17,984.18	28,429.18
<u>Other Financing (Uses):</u>				
Transfers Out			(17,000.00)	(17,000.00)
Net Change in Fund Balances	(10,445.00)	(10,445.00)	984.18	11,429.18
Fund Balance - January 1	35,794.11	35,794.11	35,794.11	
Fund Balance - December 31	25,349.11	25,349.11	36,778.29	11,429.18

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	195,000.00	195,000.00	254,502.40	59,502.40
Special Assessments	42,000.00	42,000.00	41,332.50	(667.50)
Intergovernmental	80,000.00	80,000.00	75,494.36	(4,505.64)
Charges for Services	5,500.00	5,500.00	12,877.60	7,377.60
Miscellaneous			2,941.53	2,941.53
Total Revenues	322,500.00	322,500.00	387,148.39	64,648.39
<u>Expenditures:</u>				
Current:				
Streets and Public Works	190,000.00	190,000.00	466,209.09	(276,209.09)
Debt Service:				
Principal	100,000.00	100,000.00	110,000.00	(10,000.00)
Interest and Service Charges			27,190.00	(27,190.00)
Total Expenditures	290,000.00	290,000.00	603,399.09	(313,399.09)
Net Change in Fund Balances	32,500.00	32,500.00	(216,250.70)	(248,750.70)
Fund Balance - January 1	472,028.20	472,028.20	472,028.20	
Fund Balance - December 31	504,528.20	504,528.20	255,777.50	(248,750.70)

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	180,000.00	180,000.00	224,250.77	44,250.77
Special Assessments	44,000.00	44,000.00	44,855.47	855.47
Intergovernmental	80,000.00	80,000.00	84,810.28	4,810.28
Charges for Services	7,000.00	7,000.00	6,635.08	(364.92)
Miscellaneous			2,170.84	2,170.84
Total Revenues	311,000.00	311,000.00	362,722.44	51,722.44
<u>Expenditures:</u>				
Current:				
Streets and Public Works	190,000.00	190,000.00	175,478.31	14,521.69
Debt Service:				
Principal	663,054.92	663,054.92	663,054.92	
Interest and Service Charges	28,649.45	28,649.45	28,649.45	
Total Expenditures	881,704.37	881,704.37	867,182.68	14,521.69
Excess (Deficiency) of Revenues Over Expenditures	(570,704.37)	(570,704.37)	(504,460.24)	66,244.13
<u>Other Financing Sources (Uses):</u>				
Transfers In			60,961.00	60,961.00
Transfers Out			(43,961.00)	(43,961.00)
Revenue Bonds Issued	855,000.00	855,000.00	855,000.00	
Discount on Revenue Bonds	(12,825.00)	(12,825.00)	(12,825.00)	
Total Other Financing Sources	842,175.00	842,175.00	859,175.00	17,000.00
Net Change in Fund Balances	271,470.63	271,470.63	354,714.76	83,244.13
Fund Balance - January 1	117,313.44	117,313.44	117,313.44	
Fund Balance - December 31	388,784.07	388,784.07	472,028.20	83,244.13

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales and Use Tax Fund
For the Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	60,000.00	60,000.00	84,834.16	24,834.16
Miscellaneous			5,271.19	5,271.19
Total Revenues	60,000.00	60,000.00	90,105.35	30,105.35
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	60,000.00	60,000.00	125,114.51	(65,114.51)
Excess (Deficiency) of Revenues Over Expenditures			(35,009.16)	(35,009.16)
<u>Other Financing Sources (Uses):</u>				
Transfers In			4,000.00	4,000.00
Bad Debt Expense for ED Loan			(6,720.99)	(6,720.99)
Total Other Financing Sources			(2,720.99)	(2,720.99)
Net Change in Fund Balances			(37,730.15)	(37,730.15)
Fund Balance - January 1	350,787.67	350,787.67	350,787.67	
Fund Balance - December 31	350,787.67	350,787.67	313,057.52	(37,730.15)

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales and Use Tax Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	60,000.00	60,000.00	74,750.25	14,750.25
Miscellaneous			9,289.48	9,289.48
Total Revenues	60,000.00	60,000.00	84,039.73	24,039.73
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	60,000.00	60,000.00	42,178.48	17,821.52
Net Change in Fund Balances			41,861.25	41,861.25
Fund Balance - January 1	308,926.42	308,926.42	308,926.42	
Fund Balance - December 31	308,926.42	308,926.42	350,787.67	41,861.25

CITY OF STEELE
Steele, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2020 and 2019

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, 2020 and 2019.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
General	6,541.42	
<u>Special Revenue Funds</u>		
Street	313,399.09	
Sales and Use Tax	65,114.51	

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, 2020

	Balance 1-1-20	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-20
<u>Major Governmental Funds:</u>						
<u>General Fund</u>						
Operating	8,394.22	254,536.04		8,000.00	246,368.42	8,561.84
Horizon	602.28					602.28
Safe Route	27,781.79					27,781.79
Total General Fund	36,778.29	254,536.04		8,000.00	246,368.42	36,945.91
<hr/>						
Street	472,028.20	387,148.39			603,399.09	255,777.50
Sales and Use Tax	237,956.52	103,462.55	4,000.00		125,114.51	220,304.56
Total Major Governmental Funds	746,763.01	745,146.98	4,000.00	8,000.00	974,882.02	513,027.97
<hr/>						
<u>Non-Major Governmental Funds:</u>						
Visitor Promotion	33,147.05	9,981.01		4,000.00	15,688.73	23,439.33
150th Celebration	3,128.12	1.90				3,130.02
Total Non-Major Governmental Funds	36,275.17	9,982.91		4,000.00	15,688.73	26,569.35
Total Governmental Funds	783,038.18	755,129.89	4,000.00	12,000.00	990,570.75	539,597.32
<hr/>						
<u>Major Enterprise Funds:</u>						
<u>Water Fund</u>						
Operating	43,283.33	302,975.35	13,000.00	12,184.00	207,204.32	139,870.36
Water Filter	43,800.00		8,500.00			52,300.00
Water Reserve	56,385.00		3,684.00			60,069.00
Sewer	45,640.95	25,904.70		5,000.00	34,910.50	31,635.15
Garbage	13,352.66	146,896.30			146,706.30	13,542.66
Total Major Enterprise Funds	202,461.94	475,776.35	25,184.00	17,184.00	388,821.12	297,417.17
<hr/>						
<u>Fiduciary Fund:</u>						
<u>Custodial Fund</u>						
CDBG #4621-CD19-H	20.00	47,500.00			47,500.00	20.00
Total All Funds	985,520.12	1,278,406.24	29,184.00	29,184.00	1,426,891.87	837,034.49

CITY OF STEELE
Steele, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2019

	Balance 1-1-19	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-19
Major Governmental Funds:						
<u>General Fund</u>						
Operating	7,410.04	240,766.34		17,000.00	222,782.16	8,394.22
Horizon	602.28					602.28
Safe Route	27,781.79					27,781.79
Total General Fund	35,794.11	240,766.34		17,000.00	222,782.16	36,778.29
<u>Street Fund</u>						
Street Operating	73,352.44	1,204,897.44	60,961.00		867,182.68	472,028.20
Shop Reserve	43,961.00			43,961.00		
Sales and Use Tax	190,309.62	89,825.38			42,178.48	237,956.52
Total Major Governmental Funds	343,417.17	1,535,489.16	60,961.00	60,961.00	1,132,143.32	746,763.01
<u>Non-Major Governmental Funds:</u>						
Visitor Promotion	34,346.20	7,477.84			8,676.99	33,147.05
150th Celebration	3,125.03	3.09				3,128.12
Total Non-Major Governmental Funds	37,471.23	7,480.93			8,676.99	36,275.17
Total Governmental Funds	380,888.40	1,542,970.09	60,961.00	60,961.00	1,140,820.31	783,038.18
<u>Major Enterprise Funds:</u>						
<u>Water Fund</u>						
Operating	44,567.29	250,515.67	4,770.00	15,684.00	240,885.63	43,283.33
Water Filter	31,800.00		12,000.00			43,800.00
Water Reserve	52,701.00		3,684.00			56,385.00
Sewer	32,544.35	23,850.78		4,770.00	5,984.18	45,640.95
Garbage	11,897.95	144,885.29			143,430.58	13,352.66
Total Major Enterprise Funds	173,510.59	419,251.74	20,454.00	20,454.00	390,300.39	202,461.94
<u>Fiduciary Fund:</u>						
<u>Custodial Fund</u>						
CDBG	20.00					20.00
Total All Funds	554,418.99	1,962,221.83	81,415.00	81,415.00	1,531,120.70	985,520.12

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

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, 2020 and 2019, 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 3, 2021.

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 2020-001 and 2020-002, 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, P.C.

Bismarck, North Dakota

September 3, 2021

CITY OF STEELE
Steele, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2020 and 2019

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. 2020-001 Segregation of Duties

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.

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.

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: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

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

2. 2020-002 Financial Statement Preparation

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

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

Cause: The city feels it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

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

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to distribution.

Views of Responsible Officials: 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.