

AUDIT REPORT

CITY OF STEELE
Steele, North Dakota

For the Years Ended December 31, 2022 and 2021

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STEELE
Steele, North Dakota

TABLE OF CONTENTS
For the Years Ended December 31, 2022 and 2021

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2 – 4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Cash Basis	5, 6
Statement of Activities – Modified Cash Basis	7, 8
Balance Sheet – Modified Cash Basis – Governmental Funds	9, 10
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis	11, 12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	13, 14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis	15, 16
Statement of Net Position – Modified Cash Basis – Proprietary Funds	17, 18
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds	19, 20
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds	21, 22
Statement of Fiduciary Net Position – Modified Cash Basis – Fiduciary Fund	23, 24
Statement of Changes in Fiduciary Net Position – Modified Cash Basis – Fiduciary Fund	25, 26
Notes to the Financial Statements	27 – 37
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules – Modified Cash Basis	
General Fund	38, 39
Street Fund	40, 41
Notes to the Budgetary Comparison Schedules	42
Schedules of Fund Activity Arising from Cash Transactions	43, 44
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Other Government Auditing Standards	45 – 46
Schedule of Findings and Responses	47 – 48

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

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

1003 E. Interstate Ave. Ste. 7
Bismarck, ND 58503-0500
Phone 701-258-4560
rathandmehrer@hotmail.com

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Steele
Steele, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the 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, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 as of December 31, 2022 and 2021, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the years then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the city, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – 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.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the city's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the city's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.


Supplementary 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 the schedules of fund activity arising from cash transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the city's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

August 11, 2023

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	563,038.45	269,523.39	832,561.84
Advance to Water Fund	82,333.90		82,333.90
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	1,081,365.00	1,135,762.00	2,217,127.00
Machinery and Vehicles	61,725.00	13,200.00	74,925.00
Total Capital Assets	1,183,090.00	1,148,962.00	2,332,052.00
Total Assets	1,828,462.35	1,418,485.39	3,246,947.74
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable	110,000.00	20,700.00	130,700.00
Due After One Year:			
Advance from Sales and Use Tax Fund		82,333.90	82,333.90
Revenue Bonds Payable	640,000.00	569,100.00	1,209,100.00
Total Liabilities	750,000.00	672,133.90	1,422,133.90
NET POSITION:			
Net Investment in Capital Assets	433,090.00	476,828.10	909,918.10
Restricted for:			
Debt Service		67,437.00	67,437.00
Special Purposes	642,771.75		642,771.75
Unrestricted	2,600.60	202,086.39	204,686.99
Total Net Position	1,078,462.35	746,351.49	1,824,813.84

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, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Cash, Cash Equivalents and Investments	491,658.99	249,677.06	741,336.05
Advance to Water Fund	87,577.71		87,577.71
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	1,134,803.00	1,189,078.00	2,323,881.00
Machinery and Vehicles	70,860.00	16,500.00	87,360.00
Total Capital Assets	1,245,663.00	1,205,578.00	2,451,241.00
Total Assets	1,824,899.70	1,455,255.06	3,280,154.76
<u>LIABILITIES:</u>			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable	110,000.00	20,100.00	130,100.00
Due After One Year:			
Advance from Sales and Use Tax Fund		87,577.71	87,577.71
Revenue Bonds Payable	750,000.00	589,800.00	1,339,800.00
Total Liabilities	860,000.00	697,477.71	1,557,477.71
<u>NET POSITION:</u>			
Net Investment in Capital Assets	385,663.00	508,100.29	893,763.29
Restricted for:			
Debt Service		63,753.00	63,753.00
Special Purposes	579,147.60		579,147.60
Unrestricted	89.10	185,924.06	186,013.16
Total Net Position	964,899.70	757,777.35	1,722,677.05

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

CITY OF STEELE
Steele, North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2022

	Net (Expense) Revenue and Change in Net Position					
	Program Revenues			Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Functions/Programs						
Primary Government						
<u>Governmental Activities:</u>						
General Government	128,849.73	1,983.50		(126,866.23)		(126,866.23)
Public Safety	105,236.41	600.00		(104,636.41)		(104,636.41)
Streets and Public Works	331,066.75	64,879.33	75,316.16	(190,871.26)		(190,871.26)
Health and Welfare	1,047.85			(1,047.85)		(1,047.85)
Urban and Economic Development	109,977.41			(109,977.41)		(109,977.41)
Interest and Service Charges on Long-Term Debt	19,530.00		39,845.00	20,315.00		20,315.00
Total Governmental Activities	695,708.15	67,462.83	115,161.16	(513,084.16)		(513,084.16)
<u>Business-Type Activities:</u>						
Water Operating	314,123.02	257,867.91	56,207.67		(47.44)	(47.44)
Sewer Operating	38,736.89	26,816.98			(11,919.91)	(11,919.91)
Garbage Operating	159,533.86	160,070.09			536.23	536.23
Total Business-Type Activities	512,393.77	444,754.98	56,207.67		(11,431.12)	(11,431.12)
Total Primary Government	1,208,101.92	512,217.81	171,368.83	(513,084.16)	(11,431.12)	(524,515.28)
<u>General Revenues:</u>						
Taxes:						
Property taxes, levied for general purposes				150,479.91		150,479.91
Sales taxes				356,316.78		356,316.78
Occupancy taxes				10,897.85		10,897.85
Telecommunications taxes				1,899.21		1,899.21
Cigarette taxes				1,270.57		1,270.57
Homestead tax credit				7,998.66		7,998.66
Disabled veteran's tax credit				3,004.63		3,004.63
Intergovernmental revenue not restricted to specific programs				60,938.32		60,938.32
Earnings on investments and other revenue				33,840.88	5.26	33,846.14
Total General Revenues				626,646.81	5.26	626,652.07
Change in Net Position				113,562.65	(11,425.86)	102,136.79
Net Position - January 1				964,899.70	757,777.35	1,722,677.05
Net Position - December 31				1,078,462.35	746,351.49	1,824,813.84

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

CITY OF STEELE
Steele, North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2021

Functions/Programs	Net (Expense) Revenue and Change in Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
<u>Governmental Activities:</u>						
General Government	187,985.46	4,699.00		(183,286.46)		(183,286.46)
Public Safety	84,887.40	530.00		(84,357.40)		(84,357.40)
Streets and Public Works	301,231.24	58,641.65	131,989.49	(110,600.10)		(110,600.10)
Health and Welfare	988.50			(988.50)		(988.50)
Urban and Economic Development	78,969.32			(78,969.32)		(78,969.32)
Interest and Service Charges on Long-Term Debt	21,675.00		40,760.00	19,085.00		19,085.00
Total Governmental Activities	675,736.92	63,870.65	172,749.49	(439,116.78)		(439,116.78)
<u>Business-Type Activities:</u>						
Water Operating	348,898.97	255,290.37	5,702.70		(87,905.90)	(87,905.90)
Sewer Operating	12,287.38	23,739.38			11,452.00	11,452.00
Garbage Operating	148,716.34	149,684.35			968.01	968.01
Total Business-Type Activities	509,902.69	428,714.10	5,702.70		(75,485.89)	(75,485.89)
Total Primary Government	1,185,639.61	492,584.75	178,452.19	(439,116.78)	(75,485.89)	(514,602.67)
<u>General Revenues:</u>						
Taxes:						
Property taxes; levied for general purposes				142,329.66		142,329.66
Sales taxes				335,841.66		335,841.66
Occupancy taxes				9,422.08		9,422.08
Telecommunications taxes				1,899.21		1,899.21
Cigarette taxes				1,585.00		1,585.00
Homestead tax credit				8,860.08		8,860.08
Disabled veteran's tax credit				2,325.80		2,325.80
Intergovernmental revenue not restricted to specific programs				64,471.67		64,471.67
Earnings on investments and other revenue				53,445.04	5.03	53,450.07
Transfers				4,200.00	(4,200.00)	
Total General Revenues and Transfers				624,380.20	(4,194.97)	620,185.23
Change in Net Position				185,263.42	(79,680.86)	105,582.56
Net Position - January 1				779,636.28	837,458.21	1,617,094.49
Net Position - December 31				964,899.70	757,777.35	1,722,677.05

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, 2022

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
<u>ASSETS:</u>					
Cash, Cash Equivalents and Investments	30,984.67	258,274.22	237,360.01	36,419.55	563,038.45
Advance to Water Fund			82,333.90		82,333.90
Total Assets	30,984.67	258,274.22	319,693.91	36,419.55	645,372.35
<u>FUND BALANCES:</u>					
Nonspendable:					
Advance to Water Fund			82,333.90		82,333.90
Restricted for:					
Streets and Public Works		258,274.22			258,274.22
Urban and Economic Development				33,286.33	33,286.33
Horizon Project	602.28		237,360.01		237,962.29
Safe Route	27,781.79				27,781.79
150th Celebration				3,133.22	3,133.22
Unassigned	2,600.60				2,600.60
Total Fund Balances	30,984.67	258,274.22	319,693.91	36,419.55	645,372.35

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, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
ASSETS:					
Cash, Cash Equivalents and Investments	28,473.17	191,467.24	235,584.06	36,134.52	491,658.99
Advance to Water Fund			87,577.71		87,577.71
Total Assets	28,473.17	191,467.24	323,161.77	36,134.52	579,236.70
FUND BALANCES:					
Nonspendable:					
Advance to Water Fund			87,577.71		87,577.71
Restricted for:					
Streets and Public Works		191,467.24			191,467.24
Urban and Economic Development				33,002.94	33,002.94
Horizon Project	602.28		235,584.06		236,186.34
Safe Route	27,781.79				27,781.79
150th Celebration				3,131.58	3,131.58
Unassigned	89.10				89.10
Total Fund Balances	28,473.17	191,467.24	323,161.77	36,134.52	579,236.70

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, 2022

Total Fund Balances for Governmental Funds	645,372.35
--	------------

Total net position reported for governmental 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	2,502,998.00	
Less Accumulated Depreciation	<u>(1,319,908.00)</u>	
Net Capital Assets		1,183,090.00

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, 2022 are:

Revenue Bonds Payable		<u>(750,000.00)</u>
-----------------------	--	---------------------

Total Net Position of Governmental Activities	<u><u>1,078,462.35</u></u>
---	----------------------------

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, 2021

Total Fund Balances for Governmental Funds	579,236.70
--	------------

Total net position reported for governmental 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	2,494,298.00	
Less Accumulated Depreciation	<u>(1,248,635.00)</u>	
Net Capital Assets		1,245,663.00

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, 2021 are:

Revenue Bonds Payable		<u>(860,000.00)</u>
-----------------------	--	---------------------

Total Net Position of Governmental Activities	<u><u>964,899.70</u></u>
---	--------------------------

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, 2022

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
Revenues:					
Taxes	152,379.12	267,237.57	89,079.21	10,897.85	519,593.75
Special Assessments		39,845.00			39,845.00
Licenses, Permits and Fees	1,983.50				1,983.50
Intergovernmental	73,212.18	75,316.16			148,528.34
Charges for Services	55,745.68	9,133.65			64,879.33
Fines and Forfeitures	600.00				600.00
Miscellaneous	26,382.77	2,478.59	4,688.74	290.78	33,840.88
Total Revenues	310,303.25	394,010.97	93,767.95	11,188.63	809,270.80
Expenditures:					
Current:					
General Government	126,796.73				126,796.73
Public Safety	105,236.41				105,236.41
Streets and Public Works	74,710.76	188,973.99			263,684.75
Health and Welfare	1,047.85				1,047.85
Urban and Economic Development			97,235.81	10,903.60	108,139.41
Capital Outlay		8,700.00			8,700.00
Debt Service:					
Principal		110,000.00			110,000.00
Interest and Service Charges		19,530.00			19,530.00
Total Expenditures	307,791.75	327,203.99	97,235.81	10,903.60	743,135.15
Net Changes in Fund Balances	2,511.50	66,806.98	(3,467.86)	285.03	66,135.65
Fund Balance - January 1	28,473.17	191,467.24	323,161.77	36,134.52	579,236.70
Fund Balance - December 31	30,984.67	258,274.22	319,693.91	36,419.55	645,372.35

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, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
Revenues:					
Taxes	144,228.87	251,881.25	83,960.41	9,422.08	489,492.61
Special Assessments		40,760.00			40,760.00
Licenses, Permits and Fees	4,699.00				4,699.00
Intergovernmental	77,242.55	131,989.49			209,232.04
Charges for Services	47,793.16	10,848.49			58,641.65
Fines and Forfeitures	530.00				530.00
Miscellaneous	49,664.97	361.82	3,275.16	143.09	53,445.04
Total Revenues	324,158.55	435,841.05	87,235.57	9,565.17	856,800.34
Expenditures:					
Current:					
General Government	185,932.46				185,932.46
Public Safety	84,887.40				84,887.40
Streets and Public Works	65,522.93	162,976.31			228,499.24
Health and Welfare	988.50				988.50
Urban and Economic Development			77,131.32		77,131.32
Capital Outlay		210,000.00			210,000.00
Debt Service:					
Principal		105,000.00			105,000.00
Interest and Service Charges		21,675.00			21,675.00
Total Expenditures	337,331.29	499,651.31	77,131.32	-	914,113.92
Excess (Deficiency) of Revenue Over (Under) Expenditures	(13,172.74)	(63,810.26)	10,104.25	9,565.17	(57,313.58)
Other Financing Sources (Uses):					
Transfers In	4,700.00				4,700.00
Transfers Out		(500.00)			(500.00)
Total Other Financing Sources (Uses)	4,700.00	(500.00)	-	-	4,200.00
Net Changes in Fund Balances	(8,472.74)	(64,310.26)	10,104.25	9,565.17	(53,113.58)
Fund Balance - January 1	36,945.91	255,777.50	313,057.52	26,569.35	632,350.28
Fund Balance - December 31	28,473.17	191,467.24	323,161.77	36,134.52	579,236.70

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, 2022

Net Change in Fund Balances - Total Governmental Funds	66,135.65
--	-----------

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	8,700.00	
Current Year Depreciation Expense	<u>(71,273.00)</u>	(62,573.00)

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	-	
Repayment of Debt	<u>110,000.00</u>	<u>110,000.00</u>

Change in Net Position of Governmental Activities	<u>113,562.65</u>
---	-------------------

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, 2021

Net Change in Fund Balances - Total Governmental Funds (53,113.58)

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	210,000.00	
Current Year Depreciation Expense	<u>(76,623.00)</u>	133,377.00

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	-	
Repayment of Debt	<u>105,000.00</u>	<u>105,000.00</u>

Change in Net Position of Governmental Activities		<u>185,263.42</u>
---	--	-------------------

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, 2022

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
<u>Current Assets:</u>				
Cash and Cash Equivalents	210,793.25	43,683.24	15,046.90	269,523.39
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
depreciation):				
Buildings and Infrastructure	1,011,641.00	124,121.00		1,135,762.00
Machinery and Vehicles		13,200.00		13,200.00
Total Noncurrent Assets	1,011,641.00	137,321.00		1,148,962.00
Total Assets	1,222,434.25	181,004.24	15,046.90	1,418,485.39
LIABILITIES				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	20,700.00			20,700.00
<u>Noncurrent Liabilities:</u>				
Advance from Sales and Use Tax Fund	82,333.90			82,333.90
Revenue Bonds Payable	569,100.00			569,100.00
Total Noncurrent Liabilities	651,433.90	-	-	651,433.90
Total Liabilities	672,133.90	-	-	672,133.90
NET POSITION				
Net Investment in Capital Assets	339,507.10	137,321.00		476,828.10
Restricted for Debt Service	67,437.00			67,437.00
Unrestricted	143,356.25	43,683.24	15,046.90	202,086.39
Total Net Position	550,300.35	181,004.24	15,046.90	746,351.49

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

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2021

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
<u>Current Assets:</u>				
Cash and Cash Equivalents	188,171.24	46,995.15	14,510.67	249,677.06
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
depreciation):				
Buildings and Infrastructure	1,059,649.00	129,429.00		1,189,078.00
Machinery and Vehicles		16,500.00		16,500.00
Total Noncurrent Assets	1,059,649.00	145,929.00		1,205,578.00
Total Assets	1,247,820.24	192,924.15	14,510.67	1,455,255.06
LIABILITIES				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	20,100.00			20,100.00
<u>Noncurrent Liabilities:</u>				
Advance from Sales and Use Tax Fund	87,577.71			87,577.71
Revenue Bonds Payable	589,800.00			589,800.00
Total Noncurrent Liabilities	677,377.71	-	-	677,377.71
Total Liabilities	697,477.71	-	-	697,477.71
NET POSITION				
Net Investment in Capital Assets	362,171.29	145,929.00		508,100.29
Restricted for Debt Service	63,753.00			63,753.00
Unrestricted	124,418.24	46,995.15	14,510.67	185,924.06
Total Net Position	550,342.53	192,924.15	14,510.67	757,777.35

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, 2022

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	257,867.91			257,867.91
Sewer Collections		26,816.98		26,816.98
Garbage Collections			153,476.64	153,476.64
Garbage Surcharge			2,531.26	2,531.26
Other Collections			4,062.19	4,062.19
Total Operating Revenues	257,867.91	26,816.98	160,070.09	444,754.98
<u>Operating Expenses:</u>				
Water Department	244,859.38			244,859.38
Sewer Department		30,128.89		30,128.89
Garbage Department			159,533.86	159,533.86
Depreciation	48,008.00	8,608.00		56,616.00
Total Operating Expenses	292,867.38	38,736.89	159,533.86	491,138.13
Operating Income (Loss)	(34,999.47)	(11,919.91)	536.23	(46,383.15)
<u>Non-Operating Revenues (Expenses):</u>				
Interest	5.26			5.26
Coronavirus Funding	56,207.67			56,207.67
Debt Service - Interest and Service Charges	(21,255.64)			(21,255.64)
Total Non-Operating Revenues (Expenses)	34,957.29	-	-	34,957.29
Income (Loss) Before Transfers	(42.18)	(11,919.91)	536.23	(11,425.86)
Transfers In	9,184.00			9,184.00
Transfers Out	(9,184.00)			(9,184.00)
Total Transfers	-	-	-	-
Change in Net Position	(42.18)	(11,919.91)	536.23	(11,425.86)
Net Position - January 1	550,342.53	192,924.15	14,510.67	757,777.35
Net Position - December 31	550,300.35	181,004.24	15,046.90	746,351.49

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, 2021

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	249,719.59			249,719.59
Sewer Collections		23,739.38		23,739.38
Garbage Collections			143,173.43	143,173.43
Garbage Surcharge			2,438.08	2,438.08
Other Collections	5,570.78		4,072.84	9,643.62
Total Operating Revenues	255,290.37	23,739.38	149,684.35	428,714.10
<u>Operating Expenses:</u>				
Water Department	288,590.37			288,590.37
Sewer Department		3,679.38		3,679.38
Garbage Department			148,716.34	148,716.34
Depreciation	48,008.00	8,608.00		56,616.00
Total Operating Expenses	336,598.37	12,287.38	148,716.34	497,602.09
Operating Income (Loss)	(81,308.00)	11,452.00	968.01	(68,887.99)
<u>Non-Operating Revenues (Expenses):</u>				
Interest	5.03			5.03
Coronavirus Funding	5,702.70			5,702.70
Debt Service - Interest and Service Charges	(12,300.60)			(12,300.60)
Total Non-Operating Revenues (Expenses)	(6,592.87)	-	-	(6,592.87)
Income (Loss) Before Transfers	(87,900.87)	11,452.00	968.01	(75,480.86)
Transfers In	10,184.00			10,184.00
Transfers Out	(9,684.00)	(4,700.00)		(14,384.00)
Total Transfers	500.00	(4,700.00)	-	(4,200.00)
Change in Net Position	(87,400.87)	6,752.00	968.01	(79,680.86)
Net Position - January 1	637,743.40	186,172.15	13,542.66	837,458.21
Net Position - December 31	550,342.53	192,924.15	14,510.67	757,777.35

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, 2022

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	257,867.91	26,816.98	160,070.09	444,754.98
Payments to employees and suppliers	(244,859.38)	(30,128.89)	(159,533.86)	(434,522.13)
Net cash provided (used) by operating activities	13,008.53	(3,311.91)	536.23	10,232.85
<u>Cash flows from noncapital financing activities:</u>				
Coronavirus funding	56,207.67			56,207.67
Transfers in	9,184.00			9,184.00
Transfers out	(9,184.00)	-		(9,184.00)
Net cash provided (used) by noncapital financing activities	56,207.67	-	-	56,207.67
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(25,343.81)			(25,343.81)
Interest and service charges	(21,255.64)			(21,255.64)
Net cash provided (used) by capital and related financing activities	(46,599.45)		-	(46,599.45)
<u>Cash flows from investing activities:</u>				
Interest income	5.26			5.26
Net increase (decrease) in cash and cash equivalents	22,622.01	(3,311.91)	536.23	19,846.33
Cash and cash equivalents, January 1	188,171.24	46,995.15	14,510.67	249,677.06
Cash and cash equivalents, December 31	210,793.25	43,683.24	15,046.90	269,523.39
 <u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating income (Loss)	(34,999.47)	(11,919.91)	536.23	(46,383.15)
 <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	13,008.53	(3,311.91)	536.23	10,232.85

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, 2021

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	255,290.37	23,739.38	149,684.35	428,714.10
Payments to employees and suppliers	(288,590.37)	(3,679.38)	(148,716.34)	(440,986.09)
Net cash provided (used) by operating activities	(33,300.00)	20,060.00	968.01	(12,271.99)
<u>Cash flows from noncapital financing activities:</u>				
Coronavirus funding	5,702.70			5,702.70
Transfers in	10,184.00			10,184.00
Transfers out	(9,684.00)	(4,700.00)		(14,384.00)
Net cash provided (used) by noncapital financing activities	6,202.70	(4,700.00)	-	1,502.70
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(24,675.25)			(24,675.25)
Interest and service charges	(12,300.60)			(12,300.60)
Net cash provided (used) by capital and related financing activities	(36,975.85)		-	(36,975.85)
<u>Cash flows from investing activities:</u>				
Interest income	5.03			5.03
Net increase (decrease) in cash and cash equivalents	(64,068.12)	15,360.00	968.01	(47,740.11)
Cash and cash equivalents, January 1	252,239.36	31,635.15	13,542.66	297,417.17
Cash and cash equivalents, December 31	188,171.24	46,995.15	14,510.67	249,677.06
 <u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating income (Loss)	(81,308.00)	11,452.00	968.01	(68,887.99)
<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	(33,300.00)	20,060.00	968.01	(12,271.99)

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, 2022

	Custodial Funds
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	<u>43,584.54</u>
<u>Net Position:</u>	
Restricted For:	
Organizations	<u>43,584.54</u>

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, 2021

	Custodial Fund
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	<u>333.20</u>
<u>Net Position:</u>	
Restricted For:	
Organizations	<u>333.20</u>

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, 2022

	<u>Custodial Funds</u>
<u>Additions:</u>	
Interest	0.02
Sales tax collections for other governments	<u>43,564.52</u>
Total Additions	<u>43,564.54</u>
<u>Deductions:</u>	
Payment to Steele Housing Project	<u>313.20</u>
Change in Net Position	<u>43,251.34</u>
Net Position - January 1	<u>333.20</u>
Net Position - December 31	<u><u>43,584.54</u></u>

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, 2021

	<u>Custodial Fund</u>
<u>Additions:</u>	
Community Development Block Grant #4621-CD19-H	<u>313.20</u>
Change in Net Position	<u>313.20</u>
Net Position - January 1	<u>20.00</u>
Net Position - December 31	<u><u>333.20</u></u>

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

CITY OF STEELE
Steele, North Dakota

Notes to the Financial Statements
December 31, 2022 and 2021

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. 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. These criteria include 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 investment 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.

Additionally, the city reports the following type of fiduciary fund:

Custodial Funds. These funds account for the assets held by the city in a custodial capacity as an agency on behalf of others. The city's custodial funds are used to account for the community development block grant received on behalf of the Steele Housing Project and the city sales tax funds for the construction of a new city swimming pool.

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-type 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-type, 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 financial statements 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	5 to 20 years

F. 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.

G. 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.

H. 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.

I. 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 investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or 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, 2022 the city's carrying amount of deposits was \$876,146 and the bank balance was \$949,349. Of the bank balance, \$500,000 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$449,349 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2021 the city's carrying amount of deposits was \$741,669 and the bank balance was \$759,654. Of the bank balance, \$500,000 was covered by Federal Depository Insurance and the National Credit Union Association. The remaining balance of \$259,654 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, 2022, the city held certificates of deposit in the amount of \$17,295, which are all considered deposits.

At December 31, 2021, the city held certificates of deposit in the amount of \$17,243, 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 the 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 money 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 5 CAPITAL ASSETS

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

December 31, 2022

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	<u>40,000</u>	<u></u>	<u></u>	<u>40,000</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	<u>2,132,632</u>			<u>2,132,632</u>
Machinery and Vehicles	<u>321,666</u>	<u>8,700</u>	<u></u>	<u>330,366</u>
Total	<u>2,454,298</u>	<u>8,700</u>	<u>-</u>	<u>2,462,998</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	<u>997,829</u>	<u>53,438</u>		<u>1,051,267</u>
Machinery and Vehicles	<u>250,806</u>	<u>17,835</u>	<u>-</u>	<u>268,641</u>
Total	<u>1,248,635</u>	<u>71,273</u>	<u>-</u>	<u>1,319,908</u>
Total capital assets being depreciated, net	<u>1,205,663</u>	<u>(62,573)</u>	<u>-</u>	<u>1,143,090</u>
Governmental Activities Capital Assets, Net	<u>1,245,663</u>	<u>(62,573)</u>	<u>-</u>	<u>1,183,090</u>

December 31, 2021

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	40,000			40,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,937,632	195,000		2,132,632
Machinery and Vehicles	306,666	15,000		321,666
Total	2,244,298	210,000	-	2,454,298
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	944,391	53,438		997,829
Machinery and Vehicles	227,621	23,185		250,806
Total	1,172,012	76,623	-	1,248,635
Total capital assets being depreciated, net	1,072,286	133,377	-	1,205,663
Governmental Activities Capital Assets, Net	1,112,286	133,377	-	1,245,663

December 31, 2022

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	33,000			33,000
Total	2,141,124	-	-	2,141,124
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	919,046	53,316		972,362
Machinery and Vehicles	16,500	3,300	-	19,800
Total	935,546	56,616	-	992,162
Business-Type Activities Capital Assets, Net	1,205,578	(56,616)	-	1,148,962

December 31, 2021

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,108,124			2,108,124
Machinery and Vehicles	33,000			33,000
Total	2,141,124	-	-	2,141,124
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	865,730	53,316		919,046
Machinery and Vehicles	13,200	3,300		16,500
Total	878,930	56,616	-	935,546
Business-Type Activities				
Capital Assets, Net	1,262,194	(56,616)	-	1,205,578

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

	2022	2021
Governmental Activities:		
General Government	2,053	2,053
Streets and Public Works	67,382	72,732
Urban and Economic Development	1,838	1,838
Total Depreciation Expense	71,273	76,623
Business-type Activities:		
Combined Water	48,008	48,008
Sewer Operating	8,608	8,608
Total Depreciation Expense	56,616	56,616

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2022 and 2021, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
2022					
Revenue Bonds Payable	860,000		110,000	750,000	110,000
2021					
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	965,000		105,000	860,000	110,000

Business-type Activities:

	<u>2022</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	<u>609,900</u>		<u>20,100</u>	<u>589,800</u>	<u>20,700</u>

	<u>2021</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	<u>629,400</u>		<u>19,500</u>	<u>609,900</u>	<u>20,100</u>

Outstanding debt at December 31, 2022 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, 2022 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, 2022 are as follows:

\$375,00 Sales Tax Revenue Bonds, Series 2015 due in annual installments of \$35,000 to \$40,000 through November 1, 2025. Payments include interest at 1.75% to 2.5%.	115,000.00
\$855,000 Sales Tax Revenue Bonds, Series 2019 due in annual installments of \$75,000 to \$85,000 through May 1, 2030. Payments include interest at 1.80% to 2.25%.	<u>635,000.00</u>
Total Revenue Bonds Payable	<u>750,000.00</u>

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>
2023	110,000.00	15,115.00
2024	115,000.00	12,890.00
2025	115,000.00	10,540.00
2026	80,000.00	8,145.00
2027	80,000.00	6,525.00
2028-2030	<u>250,000.00</u>	<u>8,550.00</u>
Total	<u>750,000.00</u>	<u>61,765.00</u>

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, 2022, are as follows:

\$875,000 Water Improvement Bonds of 2003, Series A due in annual installments of \$19,500 to \$36,300 through July 11, 2043. Payments include interest at 3%.	<u>589,800.00</u>
--	-------------------

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>
2023	20,700.00	17,694.00
2024	21,300.00	17,073.00
2025	22,000.00	16,434.00
2026	22,600.00	15,774.00
2027	23,300.00	15,096.00
2028-2032	127,400.00	64,566.00
2033-2037	147,700.00	44,274.00
2038-2042	171,100.00	20,760.00
2043	33,700.00	1,011.00
Total	<u>589,800.00</u>	<u>212,682.00</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, 2022</u>		
Water Filter	5,500.00	
Water Reserve	3,684.00	
Water Operating		9,184.00
To set aside funds for reserves.		
<u>December 31, 2021</u>		
General Operating	4,700.00	
Sewer		4,700.00
Water Operating	500.00	
Street		500.00
To subsidize expenditures.		
Water Filter	6,000.00	
Water Reserve	3,684.00	
Water Operating		9,684.00
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 (NDIRF), 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 NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$395,464 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 \$529,860 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, 2022 or 2021.

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	161,090.00	152,379.12	(8,710.88)
Licenses, Permits and Fees	2,760.00	1,983.50	(776.50)
Intergovernmental	55,300.00	73,212.18	17,912.18
Charges for Services	20,000.00	55,745.68	35,745.68
Fines and Forfeitures	550.00	600.00	50.00
Miscellaneous	6,800.00	26,382.77	19,582.77
Total Revenues	246,500.00	310,303.25	63,803.25
<u>Expenditures:</u>			
Current:			
General Government	133,600.00	126,796.73	6,803.27
Public Safety	71,500.00	105,236.41	(33,736.41)
Streets and Public Works	39,500.00	74,710.76	(35,210.76)
Health and Welfare	1,150.00	1,047.85	102.15
Total Expenditures	245,750.00	307,791.75	(62,041.75)
Net Change in Fund Balances	750.00	2,511.50	1,761.50
Fund Balance - January 1	28,473.17	28,473.17	
Fund Balance - December 31	29,223.17	30,984.67	1,761.50

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	157,120.00	144,228.87	(12,891.13)
Licenses, Permits and Fees	2,760.00	4,699.00	1,939.00
Intergovernmental	60,750.00	77,242.55	16,492.55
Charges for Services	10,000.00	47,793.16	37,793.16
Fines and Forfeitures	550.00	530.00	(20.00)
Miscellaneous	6,700.00	49,664.97	42,964.97
Total Revenues	237,880.00	324,158.55	86,278.55
<u>Expenditures:</u>			
Current:			
General Government	133,230.00	185,932.46	(52,702.46)
Public Safety	80,500.00	84,887.40	(4,387.40)
Streets and Public Works	29,500.00	65,522.93	(36,022.93)
Health and Welfare	1,150.00	988.50	161.50
Total Expenditures	244,380.00	337,331.29	(92,951.29)
Excess (Deficiency) of Revenue Over (Under) Expenditures	(6,500.00)	(13,172.74)	(6,672.74)
<u>Other Financing Sources:</u>			
Transfers In		4,700.00	4,700.00
Net Change in Fund Balances	(6,500.00)	(8,472.74)	(1,972.74)
Fund Balance - January 1	36,945.91	36,945.91	
Fund Balance - December 31	30,445.91	28,473.17	(1,972.74)

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	215,000.00	267,237.57	52,237.57
Special Assessments	40,000.00	39,845.00	(155.00)
Intergovernmental	80,000.00	75,316.16	(4,683.84)
Charges for Services	11,000.00	9,133.65	(1,866.35)
Miscellaneous		2,478.59	2,478.59
Total Revenues	346,000.00	394,010.97	48,010.97
<u>Expenditures:</u>			
Current:			
Streets and Public Works	210,000.00	188,973.99	21,026.01
Capital Outlay		8,700.00	(8,700.00)
Debt Service:			
Principal	140,000.00	110,000.00	30,000.00
Interest and Service Charges		19,530.00	(19,530.00)
Total Expenditures	350,000.00	327,203.99	22,796.01
Net Change in Fund Balances	(4,000.00)	66,806.98	70,806.98
Fund Balance - January 1	191,467.24	191,467.24	
Fund Balance - December 31	187,467.24	258,274.22	70,806.98

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	80,000.00	251,881.25	171,881.25
Special Assessments	40,000.00	40,760.00	760.00
Intergovernmental	80,000.00	131,989.49	51,989.49
Charges for Services	11,000.00	10,848.49	(151.51)
Miscellaneous		361.82	361.82
Total Revenues	211,000.00	435,841.05	224,841.05
<u>Expenditures:</u>			
Current:			
Streets and Public Works	190,000.00	162,976.31	27,023.69
Capital Outlay		210,000.00	(210,000.00)
Debt Service:			
Principal	140,000.00	105,000.00	35,000.00
Interest and Service Charges		21,675.00	(21,675.00)
Total Expenditures	330,000.00	499,651.31	(169,651.31)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(119,000.00)	(63,810.26)	55,189.74
<u>Other Financing (Uses):</u>			
Transfers Out		(500.00)	(500.00)
Net Change in Fund Balances	(119,000.00)	(64,310.26)	54,689.74
Fund Balance - January 1	255,777.50	255,777.50	
Fund Balance - December 31	136,777.50	191,467.24	54,689.74

CITY OF STEELE
Steele, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2022 and 2021

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, 2022 and 2021.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
General Fund	(62,041.75)	(92,951.29)
<u>Special Revenue Funds</u>		
Street		(169,651.31)

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

Note 3 A formal budget was not prepared for the Sales and Use Tax Fund for the years ending December 31, 2022 and 2021.

CITY OF STEELE
Steele, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2022

	Balance 1-1-2022	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2022
<u>Major Governmental Funds:</u>						
<u>General Fund</u>						
General Operating	89.10	310,303.25			307,791.75	2,600.60
Horizon	602.28					602.28
Safe Route	27,781.79					27,781.79
Total General Fund	28,473.17	310,303.25	-	-	307,791.75	30,984.67
Street	191,467.24	394,010.97			327,203.99	258,274.22
Sales and Use Tax	235,584.06	99,011.76			97,235.81	237,360.01
Total Major Governmental Funds	455,524.47	803,325.98	-	-	732,231.55	526,618.90
<u>Non-major Governmental Funds:</u>						
Visitor Promotion	33,002.94	11,186.99			10,903.60	33,286.33
150th Celebration	3,131.58	1.64				3,133.22
Total Non-major Governmental Funds	36,134.52	11,188.63	-	-	10,903.60	36,419.55
Total Governmental Funds	491,658.99	814,514.61	-	-	743,135.15	563,038.45
<u>Major Enterprise Funds:</u>						
<u>Water Fund</u>						
Water Operating	66,118.24	314,080.84		9,184.00	291,458.83	79,556.25
Water Filter	58,300.00		5,500.00			63,800.00
Water Reserve	63,753.00		3,684.00			67,437.00
Sewer	46,995.15	26,816.98			30,128.89	43,683.24
Garbage	14,510.67	160,070.09			159,533.86	15,046.90
Total Major Enterprise Funds	249,677.06	500,967.91	9,184.00	9,184.00	481,121.58	269,523.39
<u>Fiduciary Funds:</u>						
<u>Custodial Funds</u>						
CDBG #4621-CD19-H	333.20	0.02			313.20	20.02
Swimming Pool		43,564.52				43,564.52
Total Custodial Funds	333.20	43,564.54	-	-	313.20	43,584.54
Total All Funds	741,669.25	1,359,047.06	9,184.00	9,184.00	1,224,569.93	876,146.38

CITY OF STEELE
Steele, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2021

	Balance 1-1-2021	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2021
Major Governmental Funds:						
General Fund						
General Operating	8,561.84	324,158.55	4,700.00		337,331.29	89.10
Horizon	602.28					602.28
Safe Route	27,781.79					27,781.79
Total General Fund	36,945.91	324,158.55	4,700.00	-	337,331.29	28,473.17
Street	255,777.50	435,841.05		500.00	499,651.31	191,467.24
Sales and Use Tax	220,304.56	92,410.82			77,131.32	235,584.06
Total Major Governmental Funds	513,027.97	852,410.42	4,700.00	500.00	914,113.92	455,524.47
Non-major Governmental Funds:						
Visitor Promotion	23,439.33	9,563.61				33,002.94
150th Celebration	3,130.02	1.56				3,131.58
Total Non-major Governmental Funds	26,569.35	9,565.17	-	-	-	36,134.52
Total Governmental Funds	539,597.32	861,975.59	4,700.00	500.00	914,113.92	491,658.99
Major Enterprise Funds:						
Water Fund						
Water Operating	139,870.36	260,998.10	500.00	9,684.00	325,566.22	66,118.24
Water Filter	52,300.00		6,000.00			58,300.00
Water Reserve	60,069.00		3,684.00			63,753.00
Sewer	31,635.15	23,739.38		4,700.00	3,679.38	46,995.15
Garbage	13,542.66	149,684.35			148,716.34	14,510.67
Total Major Enterprise Funds	297,417.17	434,421.83	10,184.00	14,384.00	477,961.94	249,677.06
Fiduciary Fund:						
Custodial Fund						
CDBG #4621-CD19-H	20.00	313.20				333.20
Total All Funds	837,034.49	1,296,710.62	14,884.00	14,884.00	1,392,075.86	741,669.25

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

Specializing in Governmental Auditing

1003 E. Interstate Ave, Ste. 7
Bismarck, ND 58503-0500
Phone 701-258-4560
rathandmehrer@hotmail.com

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, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated August 11, 2023.

Report on 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) as a basis for designing 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002, that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards require the auditor to perform limited procedures on the city's response to the findings identified in our audits and 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

August 11, 2023

CITY OF STEELE
Steele, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2022 and 2021

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 ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial Statements noted? ☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2022-001 – 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. 2022-002- 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 that 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 external 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.