



# Steele County

Finley, North Dakota

## Audit Report

For the Year Ended December 31, 2015

**ROBERT R. PETERSON**  
STATE AUDITOR

Office of the State Auditor  
Division of Local Government

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STEELE COUNTY  
Finley, North Dakota

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For the Years Ended December 31, 2015

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STEELE COUNTY  
Finley, North Dakota

COUNTY OFFICIALS  
December 31, 2015

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Chairman	Ted Johnson
Vice-Chairman	Lance Fugleberg
Commissioner	Randy Richards
Commissioner	Russell Walcker
Commissioner	Brian Tuite
County Auditor	Emily Wigen
County Treasurer	Kari Crawford
County Recorder	Michelle Newman
Clerk of Court	Michelle Newman
Tax Director	Tasha Krueger
Sheriff	Wayne Beckman
State's Attorney	Charles Stock

**STATE AUDITOR**

ROBERT R. PETERSON  
Phone (701) 328-2241  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

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

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**INDEPENDENT AUDITOR'S REPORT**

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Board of County Commissioners  
Steele County  
Finley, North Dakota

**Report on the Financial Statements**

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Steele County, Finley, North Dakota, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## STEELE COUNTY

### Independent Auditor's Report - Continued

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#### ***Emphasis of a Matter***

As discussed in Note 23 to the financial statements, Steele County adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

#### ***Other Matters***

##### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension schedules, and notes to the required supplementary information* on pages 30-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### *Other Information*

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

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 on our consideration of Steele County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Steele County's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

September 23, 2016

STEELE COUNTY  
Finley, North Dakota

STATEMENT OF NET POSITION  
December 31, 2015

	Primary	Component Units	
	Government	Water	Job
	Governmental	Resource	Development
	Activities	District	Authority
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 7,896,352	\$ 467,883	\$ 382,068
Intergovernmental receivable	136,402	-	-
Road accounts receivable	1,266	-	-
Taxes receivable	36,319	1,339	1,029
Intangible Assets (not being depreciated):			
Land Easements	-	58,200	-
Capital Assets (not being depreciated):			
Land	5,425	71,923	-
Construction in Progress	-	26,474	-
Capital Assets (net of accumulated depreciation):			
Office Equipment	10,165	-	-
Vehicles	47,041	-	-
Machinery & Equipment	337,040	-	-
Buildings	526,438	-	-
Infrastructure	5,870,583	790,142	-
Total Capital Assets	\$ 6,796,692	\$ 888,539	\$ -
Total Assets	\$ 14,867,031	\$ 1,415,961	\$ 383,097
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension	\$ 147,197	\$ 6,683	\$ 6,506
Total Assets and Deferred Outflows of Resources	\$ 15,014,228	\$ 1,422,644	\$ 389,603
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 28,359	\$ 5,536	\$ 5,000
Salaries and benefits payable	5,930	55	-
Grants received in advance	186,826	-	-
Interest payable	13,639	6,892	-
<b>Non-Current Liabilities:</b>			
Due Within One Year:			
Loans payable	-	17,769	-
Leases payable	2,542	-	-
Bonds payable	125,000	56,000	-
Compensated absences payable	2,397	121	119
Due After One Year:			
Loans payable	-	57,176	-
Leases payable	7,625	-	-
Bonds payable	2,525,000	312,000	-
Compensated absences payable	21,570	1,088	1,068
Net Pension Liability	564,144	25,612	24,935
Total Liabilities	\$ 3,483,032	\$ 482,249	\$ 31,122
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension	\$ 62,172	\$ 2,823	\$ 2,748
Taxes received in advance	564,786	-	-
Total Deferred Inflows of Resources	\$ 626,958	\$ 2,823	\$ 2,748
Total Liabilities and Deferred Inflows of Resources	\$ 4,109,990	\$ 485,072	\$ 33,870
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 4,136,525	\$ 445,594	\$ -
Restricted for:			
Debt service	29,825	-	-
Public safety	32,909	-	-
Highways and bridges	2,974,960	-	-
Health and welfare	246,944	-	-
Culture and recreation	11,583	-	-
Conservation of natural resources	276,045	491,978	-
Emergencies	361,658	-	-
Flood repairs	5,997	-	-
General Government	1,285,858	-	-
Economic development	-	-	355,733
Unrestricted	1,541,934	-	-
Total Net Position	\$ 10,904,238	\$ 937,572	\$ 355,733

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

STEELE COUNTY  
Finley, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, Forfeits and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units	
					Governmental Activities	Water Resource District	Job Development Authority
<b>Primary Government:</b>							
General government	\$ 965,011	\$ 112,343	\$ -	\$ -	\$ (852,668)		
Public safety	252,951	71,669	14,675	-	(166,607)		
Highways and bridges	2,885,914	136,653	2,007,904	-	(741,357)		
Flood repairs	243,623	-	-	-	(243,623)		
Health and welfare	405,039	34,990	20,649	-	(349,400)		
Conserv. of natural resources	110,618	-	189,395	-	78,777		
Culture and recreation	118,091	31,000	5,001	-	(82,090)		
Interest	82,464	-	-	-	(82,464)		
<b>Total Governmental Activities</b>	<b>\$ 5,063,711</b>	<b>\$ 386,655</b>	<b>\$ 2,237,624</b>	<b>\$ -</b>	<b>\$ (2,439,432)</b>		
<b>Component Units:</b>							
Water resource district	\$ 180,395	\$ -	\$ 1,950	\$ -	\$ (178,445)	\$ -	
Job development authority	252,205	-	-	-	-	(252,205)	
<b>Total Component Units</b>	<b>\$ 432,600</b>	<b>\$ -</b>	<b>\$ 1,950</b>	<b>\$ -</b>	<b>\$ (178,445)</b>	<b>\$ (252,205)</b>	
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes; levied for general purposes					\$ 594,550	\$ 288,850	\$ 73,568
Property taxes; levied for special purposes					1,437,478	-	-
Property taxes; levied for debt service					302,054	-	-
Sales taxes					209,393	-	-
Grants and contributions not restricted to specific programs					372,389	6,219	-
Sale of Capital Asset					132,588	-	-
Unrestricted investment earnings					18,208	662	1,631
Miscellaneous revenue					130,233	91	42,114
Unrealized gain (loss) on investments					-	-	(849)
<b>Total General Revenues</b>					<b>\$ 3,196,893</b>	<b>\$ 295,822</b>	<b>\$ 116,464</b>
<b>Change in Net Position</b>					<b>\$ 757,461</b>	<b>\$ 117,377</b>	<b>\$ (135,741)</b>
Net Position - January 1					\$ 10,611,952	\$ 841,314	\$ 512,035
Prior Period Adjustment					(465,175)	(21,119)	(20,561)
<b>Net Position - January 1, as restated</b>					<b>\$ 10,146,777</b>	<b>\$ 820,195</b>	<b>\$ 491,474</b>
<b>Net Position - December 31</b>					<b>\$ 10,904,238</b>	<b>\$ 937,572</b>	<b>\$ 355,733</b>

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

STEELE COUNTY  
Finley, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2015

	General	Farm to Market Road	Road Construction	County Road & Bridge	FEMA	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash and cash equivalents	\$ 1,748,322	\$ 1,311,168	\$ 491,698	\$ 701,158	\$ 186,826	\$ 3,457,180	\$ 7,896,352
Intergovernmental receivable	52,176	5,038	-	5,118	5,997	68,073	136,402
Road receivable	-	-	-	1,266	-	-	1,266
Due from other funds	-	-	-	-	-	49,133	49,133
Taxes receivable	9,097	4,006	-	4,791	-	18,425	36,319
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,809,595</b>	<b>\$ 1,320,212</b>	<b>\$ 491,698</b>	<b>\$ 712,333</b>	<b>\$ 192,823</b>	<b>\$ 3,592,811</b>	<b>\$ 8,119,472</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<u>Liabilities:</u>							
Accounts payable	\$ -	\$ -	\$ -	\$ 22,639	\$ -	\$ 5,720	\$ 28,359
Salaries payable	-	-	-	5,930	-	-	5,930
Due to other funds	-	-	-	-	-	49,133	49,133
Grants received in advance	-	-	-	-	186,826	-	186,826
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,569</b>	<b>\$ 186,826</b>	<b>\$ 54,853</b>	<b>\$ 270,248</b>
<u>Deferred Inflows of Resources:</u>							
Taxes received in advance	\$ 218,528	\$ 77,879	\$ -	\$ 110,244	\$ -	\$ 158,135	\$ 564,786
Road receivable	-	-	-	1,266	-	-	1,266
Taxes receivable	9,097	4,006	-	4,791	-	18,425	36,319
<b>Total Deferred Inflows of Resources</b>	<b>227,625</b>	<b>81,885</b>	<b>-</b>	<b>116,301</b>	<b>-</b>	<b>176,560</b>	<b>602,371</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 227,625</b>	<b>\$ 81,885</b>	<b>\$ -</b>	<b>\$ 144,870</b>	<b>\$ 186,826</b>	<b>\$ 231,413</b>	<b>\$ 872,619</b>
<u>Fund Balances:</u>							
<u>Restricted for:</u>							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,878	\$ 125,878
Highways and bridges	-	1,238,327	491,698	567,463	-	801,729	3,099,217
Flood repairs	-	-	-	-	5,997	-	5,997
Health and welfare	-	-	-	-	-	358,942	358,942
Culture and recreation	-	-	-	-	-	13,392	13,392
Conservation of natural resources	-	-	-	-	-	277,359	277,359
Emergencies	-	-	-	-	-	360,843	360,843
General government	-	-	-	-	-	1,432,727	1,432,727
Debt service	-	-	-	-	-	39,661	39,661
<u>Unassigned:</u>	<u>1,581,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,133)</u>	<u>1,532,837</u>
<b>Total Fund Balances</b>	<b>\$ 1,581,970</b>	<b>\$ 1,238,327</b>	<b>\$ 491,698</b>	<b>\$ 567,463</b>	<b>\$ 5,997</b>	<b>\$ 3,361,398</b>	<b>\$ 7,246,853</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,809,595</b>	<b>\$ 1,320,212</b>	<b>\$ 491,698</b>	<b>\$ 712,333</b>	<b>\$ 192,823</b>	<b>\$ 3,592,811</b>	<b>\$ 8,119,472</b>

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



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STEELE COUNTY  
Finley, North Dakota

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

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Total *Fund Balances* of Governmental Funds \$ 7,246,853

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

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

Cost of Capital Assets	\$ 9,132,744	
Less Accumulated Depreciation	<u>(2,336,052)</u>	6,796,692

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

Property Taxes Receivable	\$ 36,319	
Road Department Accounts Receivable	<u>1,266</u>	37,585

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

Deferred Outflows Related to Pensions	\$ 147,197	
Deferred Inflows Related to Pensions	<u>(62,172)</u>	85,025

Long-term liabilities applicable to the county's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term- are reported in the statement of net position. Balances at December 31, 2015 are:

Bonds Payable	\$ (2,650,000)	
Interest Payable	(13,639)	
Capital Lease Payable	(10,167)	
Compensated Absences Payable	(23,967)	
Net Pension Liability	<u>(564,144)</u>	<u>(3,261,917)</u>

Total Net Position of Governmental Activities \$ 10,904,238

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

STEELE COUNTY  
Finley, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

	General	Farm to Market Road	Road Construction	County Road & Bridge	FEMA	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>							
Property tax	\$ 596,458	\$ 265,308	\$ -	\$ 389,807	\$ -	\$ 1,089,878	\$ 2,341,451
Sales tax	-	-	-	-	-	209,393	209,393
Intergovernmental	251,380	23,673	1,680,886	24,179	189,395	440,499	2,610,012
Charges for services	180,188	-	-	148,813	-	81,708	410,709
Interest income	18,208	-	-	-	-	-	18,208
Miscellaneous	46,340	-	-	1,158	-	82,735	130,233
<b>Total Revenues</b>	<b>\$ 1,092,574</b>	<b>\$ 288,981</b>	<b>\$ 1,680,886</b>	<b>\$ 563,957</b>	<b>\$ 189,395</b>	<b>\$ 1,904,213</b>	<b>\$ 5,720,006</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General government	\$ 517,582	\$ -	\$ -	\$ -	\$ -	\$ 443,069	\$ 960,651
Public safety	207,295	-	-	-	-	67,986	275,281
Highways and bridges	-	107,207	1,750,621	623,371	-	9,682	2,490,881
Flood repairs	-	-	-	-	243,623	-	243,623
Health and welfare	71,820	-	-	-	-	331,142	402,962
Culture and recreation	-	-	-	-	-	117,360	117,360
Conserv. of natural resources	43,474	-	-	-	-	70,922	114,396
<b>Debt Service:</b>							
Principal	2,542	-	-	-	-	120,000	122,542
Interest	-	-	-	-	-	83,664	83,664
<b>Total Expenditures</b>	<b>\$ 842,713</b>	<b>\$ 107,207</b>	<b>\$ 1,750,621</b>	<b>\$ 623,371</b>	<b>\$ 243,623</b>	<b>\$ 1,243,825</b>	<b>\$ 4,811,360</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 249,861</b>	<b>\$ 181,774</b>	<b>\$ (69,735)</b>	<b>\$ (59,414)</b>	<b>\$ (54,228)</b>	<b>\$ 660,388</b>	<b>\$ 908,646</b>
<b>Other Financing Sources (Uses):</b>							
Transfers in	\$ 1,214	\$ -	\$ -	\$ 772,376	\$ -	\$ -	\$ 773,590
Sale of Equipment	-	-	-	132,588	-	-	132,588
Lease Financing	12,709	-	-	-	-	-	12,709
Transfers out	-	-	-	-	-	(773,590)	(773,590)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 13,923</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 904,964</b>	<b>\$ -</b>	<b>\$ (773,590)</b>	<b>\$ 145,297</b>
<b>Net Change in Fund Balances</b>	<b>\$ 263,784</b>	<b>\$ 181,774</b>	<b>\$ (69,735)</b>	<b>\$ 845,550</b>	<b>\$ (54,228)</b>	<b>\$ (113,202)</b>	<b>\$ 1,053,943</b>
Fund Balances - January 1	\$ 1,318,186	\$ 1,056,553	\$ 561,433	\$ (278,087)	\$ 60,225	\$ 3,474,600	\$ 6,192,910
Fund Balances - December 31	\$ 1,581,970	\$ 1,238,327	\$ 491,698	\$ 567,463	\$ 5,997	\$ 3,361,398	\$ 7,246,853

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

STEELE COUNTY  
Finley, North Dakota

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

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,053,943

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	\$ 118,733	
Current Year Depreciation Expense	<u>(282,844)</u>	(164,111)

The net effect of a miscellaneous transaction involving capital assets is to decrease net capital assets. (197,688)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of a lease isn't an inflow of resources, but does increase liabilities. This is the amount by which debt repayment exceeded debt issuance:

Repayment of Debt - Loans	\$ 120,000	
Lease Repayment	2,542	
Lease Financing	<u>(12,709)</u>	109,833

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

Decrease in Interest Payable	\$ 1,200	
Increase in Compensated Absences	<u>(350)</u>	850

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

Decrease in Taxes Receivable	\$ (7,369)	
Decrease in Road Accounts Receivable	<u>(24,053)</u>	(31,422)

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

Increase in Net Pension Liability	\$ (140,315)	
Increase in Deferred Outflows of Resources Related to Pensions	105,810	
Decrease in Deferred Inflows of Resources Related to Pensions	<u>20,561</u>	<u>(13,944)</u>

Change in Net Position of Governmental Activities \$ 757,461

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

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STEELE COUNTY  
Finley, North Dakota

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

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ASSETS

Cash and cash equivalents	<u>\$ 1,113,370</u>
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LIABILITIES

Due to other governments	<u>\$ 1,113,370</u>
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The notes to the financial statements are an integral part of this statement.

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STEELE COUNTY  
Finley, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2015

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

Based on these criteria, there are two component units to be included within Steele County as a reporting entity.

**COMPONENT UNITS**

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Units: The component unit column in the basic financial statements includes the financial data of the county's component units. These units are reported in separate columns to emphasize that it is legally separate from the county.

Steele County Water Resource District - The County's governing board appoints a voting majority of the members of the Steele County Water Resource District Board. The county has the authority to approve or modify the Water Resource District operational and capital budgets. The county also must approve the tax levy established by the Water Resource District. Complete financial statements of the individual component unit can be obtained from the Secretary-Treasurer, Steele County Water Resource District, P.O. Box 231, Finley, North Dakota, 58230.

Steele County Job Development Authority - The County's governing board appoints a voting majority of the members of the Steele County Job Development Authority. The county has the authority to approve or modify the Job Development Authority operational and capital budgets. The county also must approve the tax levy established by the Job Development Authority. Complete financial statements of the individual component unit can be obtained from the Secretary-Treasurer, Steele County Job Development Authority, P.O. Box 451, Finley, North Dakota, 58230.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

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

	<b>2015</b>
Historical Society	\$ 21,024
Senior Citizens	51,690

**B. Basis of Presentation**

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government, Steele County and its component units. 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's 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, interest, and non-restricted grants and contributions, are presented as general revenues.

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

The county reports the following major governmental funds:

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

*Farm to Market Road Fund.* This fund accounts for the costs of constructing and maintaining federal aid farm to market roads within the county. The major sources of revenues are a restricted tax levy and State/Federal grants/reimbursements

*Road Construction Fund.* This fund accounts for the construction and repair costs of County Road. The major source of revenue is a restricted bond.

*County Road and Bridge Fund.* This fund accounts for the maintenance and repair of roads within the county. The major sources of revenue are a restricted tax levy and State/Federal grants/reimbursements.

*FEMA Fund.* This fund accounts for state and federal grants for flood disaster related repairs to roads and the related disbursements. The major primary source of revenue is restricted Federal and State grants/reimbursements.

The County reports the following fund type:

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

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

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

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

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

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

**D. Cash and Investments**

Cash includes amounts in demand deposits and money market accounts.

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

**E. Capital Assets****PRIMARY GOVERNMENT:**

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

General infrastructure assets acquired prior to January 1, 2005 consisting of various road and bridge network assets are not reported in the financial statements, as the County was required to prospectively report infrastructure assets beginning January 1, 2005 as a Phase III GASB 34 implementation entity. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<b>Assets</b>	<b>Years</b>
Land	Indefinite
Buildings	40
Machinery and Equipment	5 - 15
Infrastructure	40
Vehicles	3 - 5
Office Equipment	3 - 5

**WATER RESOURCE DISTRICT:**

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

<b>Asset</b>	<b>Years</b>
Land	Indefinite
Easements	Indefinite
Infrastructure	50

F. Compensated Absences

Vacation leave is earned by county employees at the rate of 7.5 hours to 16.5 hours per month depending on years of service and the type of county employee. Up to 240 hours of vacation leave may be carried over at each year-end by road department and social service employees. Up to 80 hours of vacation leave may be carried over at year-end by other county employees. Sick leave benefits are earned by full-time employees at the rate of one day per month regardless of the years of service. A limited number of sick leave hours may be carried over from year to year – 800 hours. Employees are paid for sick leave upon termination of employment at a rate of 10 days of sick leave for 1 vacation day with a maximum of 100 sick leave days. Vested or accumulated vacation leave is reported in government-wide statement of net assets and the change in compensated absences is reported by expense function in the statement of activities.

<b>County Employees</b>	<b>Mo. Hours</b>	<b>Road Dept.</b>	<b>Mo. Hours</b>
1 through 4 years	7.5	1 through 4 years	8
5 through 8 years	10	5 through 8 years	10.5
9 through 13 years	12	9 through 13 years	12.5
14 through 19 years	14	14 through 19 years	14.5
20 years and above	16	20 years and above	16.5

<b>Social Services</b>	<b>Mo. Hours</b>
1 through 3 years	8
4 through 7 years	10
8 through 12 years	12
13 through 18 years	14
19 years and above	16

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.



**STEELE COUNTY**

Notes to the Financial Statements - Continued

H. Pension

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

I. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

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

***Minimum Fund Balance Policy:***

Steele County established a 12.5% - 15% general fund carryover balance target to help with financial stability. The 12.5% - 15% fund balance range is a part of the county's fiscal policies. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the county.

***Major Special Revenue Fund Purposes & Revenue Sources:***

Purposes and major revenue sources of the major special revenue funds (farm to market road, road construction, county road & bridge, E-911, and FEMA) are disclosed in more detail in Note 1B in the discussion of major funds.

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

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

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables (loans), endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.

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**STEELE COUNTY**

## Notes to the Financial Statements - Continued

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

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

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

Restricted fund balances are shown by primary function on the balance sheet for public safety, highways & bridges, flood repairs, health & welfare, culture & recreation, conservation of natural resources, emergencies, debt service, and general government purposes (health insurance, insurance reserve, veteran's service officer, and social security). Restricted fund balances are restricted by enabling legislation (primarily state law for various tax levies) and by outside 3<sup>rd</sup> parties (State & Federal governments for various grants & reimbursements and bond indentures).

Special Revenue Funds – Restricted & Committed Fund Balances:

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

Unassigned Fund Balances:

Unassigned fund balances at year-end consist of an amount in the general fund and negative fund balances reported in the 911 Fund.

**Net Position:**

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

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

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

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

Unrestricted net position is primarily unrestricted amounts related to the general fund, as well as amounts shown for negative funds. The unrestricted net position is available to meet the district's ongoing obligations.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

J. Interfund Transactions

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

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

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

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

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
<u>Major Funds:</u>			
Road Construction	\$ -	\$ 1,750,621	\$ 1,750,621
FEMA	50,000	216,554	266,554
<u>Non-Major Funds:</u>			
Sales Tax	-	252,000	252,000
Weight Restriction	-	3,440	3,440
Human Services	295,577	13,443	309,020
Youth Foster Care	-	12,525	12,525
E-911	29,565	1,697	31,262
Document Preservation	-	1,969	1,969
County Park	99,800	17,560	117,360
County Bond	-	203,664	203,664

**NOTE 3: DEPOSITS**

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

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

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

## STEELE COUNTY

### Notes to the Financial Statements - Continued

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At year ended December 31, 2015, the county's carrying amount of deposits totaled \$8,864,628, and the bank balances totaled \$8,909,713. Of the bank balances, \$1,000,000 was covered by Federal Depository Insurance, and \$11,927 was held at the Bank of North Dakota (not requiring collateralization). The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

The Water Resource District's carrying amount of deposits at December 31, 2015 totaled \$467,884 and the bank balances totaled \$469,103. Of the bank balances, \$346,587 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

The Job Development Authority's carrying amount of deposits at December 31, 2015 totaled \$376,895 and the bank balances totaled \$376,789, all of which was covered by Federal Depository Insurance.

#### Credit Risk:

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2015, the County held certificates of deposit in the amount of \$2,201,984, and the Job Development Authority held \$373,420, all of which are considered deposits.

#### Interest Rate Risk:

The County and its component units do not have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

#### Concentration of Credit Risk:

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

#### NOTE 4: TAXES RECEIVABLE

Taxes receivable included in the deferred inflows of resources on the balance sheet represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 5: DUE TO / FROM OTHER FUNDS**

The due to other funds reported in the other governmental funds at December 31, 2015 represents the amount of negative cash at year-end in the 911 fund which is covered by other governmental funds.

**NOTE 6: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts due to the general fund at December 31, 2015 from the Traill County District Health Unit for health services provided.

**NOTE 7: ROAD RECEIVABLES**

Road receivable consists of amounts due to the road department for work done for townships, cities, schools and individuals.

**NOTE 8: INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of reimbursements due for expenses in the operation various welfare, road, and emergency management programs. These amounts consist of a mix of state and federal dollars.

**NOTE 9: CAPITAL ASSETS**

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

<b>Governmental Activities:</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 5,425	\$ -	\$ -	\$ 5,425
<i>Capital assets, being depreciated:</i>				
Office Equipment	\$ 42,302	\$ 12,706	\$ -	\$ 55,008
Vehicles	246,392	42,227	-	288,619
Machinery & Equipment	1,697,231	63,800	319,313	1,441,718
Buildings	979,899	-	-	979,899
Infrastructure	6,362,075	-	-	6,362,075
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 9,327,899</b>	<b>\$ 118,733</b>	<b>\$ 319,313</b>	<b>\$ 9,127,319</b>
<i>Less accumulated depreciation for:</i>				
Office Equipment	\$ 42,302	\$ 2,541	\$ -	\$ 44,843
Vehicles	218,683	22,895	-	241,578
Machinery & Equipment	1,145,233	81,070	121,625	1,104,678
Buildings	436,175	17,286	-	453,461
Infrastructure	332,440	159,052	-	491,492
<b>Total Accumulated Depreciation</b>	<b>\$ 2,174,833</b>	<b>\$ 282,844</b>	<b>\$ 121,625</b>	<b>\$ 2,336,052</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 7,153,066</b>	<b>\$ (164,111)</b>	<b>\$ 197,688</b>	<b>\$ 6,791,267</b>
<b>Governmental Activities-Capital Assets, Net</b>	<b>\$ 7,158,491</b>	<b>\$ (164,111)</b>	<b>\$ 197,688</b>	<b>\$ 6,796,692</b>

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

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

<b>Governmental Activities:</b>	<b>Amounts</b>
General Government	\$ 12,312
Highways and Bridges	239,135
Public Safety	16,682
Culture and Recreation	11,095
Conservation of Natural Resources	3,620
<b>Total Depreciation Expense-Governmental Activities</b>	<b>\$ 282,844</b>

Component Unit – Steele County Water Resource District:

The following is a summary of changes in capital assets for the years ended December 31, 2015 for the Steele County Water Resource District:

<b>Steele County Water Resource District</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 71,923	\$ -	\$ -	\$ 71,923
Construction in Progress	-	26,474	-	26,474
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 71,923</b>	<b>\$ 26,474</b>	<b>\$ -</b>	<b>\$ 98,397</b>
<i>Capital assets, being depreciated:</i>				
Infrastructure	\$ 940,645	\$ -	\$ -	\$ 940,645
<i>Less accumulated depreciation for:</i>				
Infrastructure	\$ 131,690	\$ 18,813	\$ -	\$ 150,503
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 808,955</b>	<b>\$ (18,813)</b>	<b>\$ -</b>	<b>\$ 790,142</b>
<b>Governmental Activities-Capital Assets, Net</b>	<b>\$ 880,878</b>	<b>\$ 7,661</b>	<b>\$ -</b>	<b>\$ 888,539</b>

Depreciation of \$18,813 was charged to conservation of natural resources function.

Intangible Assets for the years ended December 31, 2015:

<b>Steele County Water Resource District</b>	<b>Balance January 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31</b>
<i>Intangible asset, not being depreciated:</i>				
Land Easement	\$ 58,200	\$ -	\$ -	\$ 58,200

Land Easements consists of the water resource districts cost to secure the right to construct drains on private land. This amount is not being amortized.

**NOTE 10: DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions for differences between actual and expected experience, changes in proportion and differences between employer contributions and proportionate share of contributions, and for contributions made to the plan for the period of July 1, 2015 through December 31, 2015.

**NOTE 11: ACCOUNTS PAYABLE**

Accounts payable consists of amounts owed to various vendors at each year-end on open invoices.

**STEELE COUNTY**

Notes to the Financial Statements - Continued

**NOTE 12: SALARIES/BENEFITS PAYABLE**

Salaries and benefits payable consists of a liability account related to payroll withholdings related to various payroll deductions withheld but not yet paid at year end.

**NOTE 13: GRANTS RECEIVED IN ADVANCE**

Grants received in advance consist of funds received in the FEMA fund where the eligibility requirements have not all been met at December 31, 2015. Asset recognition criteria have been met, but revenue recognition criteria have not been met.

**NOTE 14: INTEREST PAYABLE**

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

**NOTE 15: LONG-TERM LIABILITIES**

Primary Government:

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

<b>Governmental Activities:</b>	<b>Balance Jan. 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec. 31</b>	<b>Due Within One Year</b>
Leases Payable	\$ -	\$ 12,709	\$ 2,542	\$ 10,167	\$ 2,542
General Obligation Bonds Payable	2,770,000	-	120,000	2,650,000	125,000
Compensated Absences *	23,617	350	-	23,967	2,397
Net Pension Liability *	423,829	140,315	-	564,144	-
<b>Total Governmental Activities</b>	<b>\$ 3,217,446</b>	<b>\$ 153,374</b>	<b>\$ 122,542</b>	<b>\$ 3,248,278</b>	<b>\$ 129,939</b>

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

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

**General Obligation Bond Payable:**

\$2,900,000 bond payable; annual payments of \$120,000 to \$185,000 through May 1, 2033; with interest from 0.50% to 4.25% \$2,650,000

**Leases Payable**

\$12,709 copier lease with annual payments of \$2,542 through 2019. \$ 10,167

**STEELE COUNTY**

Notes to the Financial Statements - Continued

The annual requirements to amortize the outstanding debt, excluding compensated absences and net pension liability are as follows for the year ended December 31, 2015:

<b>PRIMARY GOVERNMENT</b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>Leases Payable</b>		<b>G.O. Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 2,542	\$ -	\$ 125,000	\$ 81,220
2017	2,542	-	125,000	79,970
2018	2,542	-	125,000	78,095
2019	2,541	-	125,000	75,595
2020	-	-	130,000	73,045
2021 - 2025	-	-	690,000	314,178
2026 - 2030	-	-	790,000	194,365
2031 - 2035	-	-	540,000	34,850
Total	\$ 10,167	\$ -	\$ 2,650,000	\$ 931,318

**DISCRETELY PRESENTED COMPONENT UNIT:**

Steele County Water Resource District:

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

<b>Steele Co. Water Resource Dist.</b>	<b>Balance Jan 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance Dec 31</b>	<b>Due Within One Year</b>
Bonds Payable	\$ 424,000	\$ -	\$ 56,000	\$ 368,000	\$ 56,000
Loans Payable	91,918	-	16,973	74,945	17,769
Compensated Absences *	1,380	-	171	1,209	121
Net Pension Liability *	19,242	6,370	-	25,612	-
Total Governmental Activities	\$ 536,540	\$ 6,370	\$ 73,144	\$ 469,766	\$ 73,890

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

Outstanding debt (excluding compensated absences payable and net pension liability) at December 31, 2015 for the Water Resource District governmental activities consists of the following issues:

**Bonds Payable**

\$140,000 Refunding Improvement Bonds of 2009 due in annual installments of \$6,000 to \$40,000 through 2020; with interest at 5.50%. \$ 98,000

\$745,000 Refunding Improvement Bonds of 2005 due in annual installments of \$25,000 to \$55,000 through 2020; with interest at 3.3% to 4.3%. 270,000

Total Bonds Payable \$368,000

**Loans Payable**

\$100,000 Line of Credit from Citizens State Bank with interest at 5.75% for Snagging/Clearing - Elm River. Annual installments of \$6,587 to \$6,591 are due through 2018. \$ 19,180



**STEELE COUNTY**

Notes to the Financial Statements - Continued

Loans Payable (Continued):

\$100,000 Line of Credit from Citizens State Bank with interest at 5.75% for Snagging/Clearing – Goose River. Annual installments of \$10,129 are due through 2022. \$47,939

\$65,000 Line of Credit from Citizens State Bank with interest at 5% for Snagging and Clearing. Annual installments of \$8,447 are due through 2016. 7,826

Total Loans Payable \$74,945

Debt service requirements on long-term debt for the discretely presented component unit at December 31, 2015 are as follows:

<b>COMPONENT UNIT - WATER RESOURCE DISTRICT</b>				
<b>Year Ending December 31</b>	<b>Bonds Payable</b>		<b>Loans Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 56,000	\$ 15,674	\$ 17,769	\$ 4,139
2017	61,000	13,156	10,533	3,242
2018	61,000	10,512	11,902	2,431
2019	95,000	6,884	4,924	1,994
2020	95,000	2,294	5,207	1,711
2021 - 2025	-	-	24,610	3,521
Totals	\$ 368,000	\$ 48,520	\$ 74,945	\$ 17,038

Steele County Job Development Authority:

**Changes in Long-Term Liabilities** - During the years ended December 31, 2015, the following changes occurred in governmental and enterprise long-term liabilities of the Job Development Authority:

<b>Steele County Job Develop. Authority</b>	<b>Jan. 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Dec. 31</b>	<b>One Year</b>
Net Pension Liability *	\$ 18,733	\$ 6,202	\$ -	\$ 24,935	\$ -
Compensated Absences Payable *	606	581	-	1,187	119
Total Governmental Activities	\$ 19,339	\$ 6,783	\$ -	\$ 26,122	\$ 119

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

**NOTE 16: DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the government wide financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, this includes amounts related to pension items. Additionally, at the government wide level, deferred inflows of resources in the statement of net position represent the amount of taxes received in advance.

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

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 17: TRANSFERS**

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

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Major Funds:</b>		
General Fund	\$ 1,214	\$ -
County Road and Bridge	772,376	-
Highway Tax Distribution	-	702,376
<b>Nonmajor Funds:</b>		
<u>Special Revenue Fund:</u>		
Utility Permits	-	70,000
<u>Debt Service Fund:</u>		
County Bond 2001	-	1,214
<b>Total Transfers</b>	<b>\$ 773,590</b>	<b>\$ 773,590</b>

**NOTE 18: PENSION PLAN****General Information about the NDPERS Pension Plan*****North Dakota Public Employees Retirement System (Main System)***

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

**Pension Benefits**

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

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

**Death and Disability Benefits**

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

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

**Refunds of Member Account Balance**

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

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

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

**Member and Employer Contributions**

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

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

At December 31, 2015, the County reported a liability of \$564,144 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the main system pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was .082964 percent, which was an increase of .016190 percent from its proportion measured as of June 30, 2014.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

For the year ended December 31, 2015, the Employer recognized pension expense of \$74,020. At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 16,367	\$ -
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	100,810	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	11,909
Changes of Assumptions	-	50,263
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	-
District Contributions Subsequent to the Measurement Date	30,020	-
<b>Total</b>	<b>\$ 147,197</b>	<b>\$ 62,172</b>

\$30,020 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015.

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

2016	\$ (15,275)
2017	(15,275)
2018	(15,275)
2019	9,334
2020	(9,315)

**Actuarial Assumptions**

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	3.85% per annum for four years, then 4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

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

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

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

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

**Discount Rate**

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

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
County's Proportionate Share of the Net Pension Liability	\$ 865,087	\$ 564,144	\$ 317,919

**Pension Plan Fiduciary Net Position**

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

**NOTE 19: RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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. Steele County pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF for automobile and general liability is limited to losses of two million dollars per occurrence. Public assets (mobile equipment and portable property) coverage is limited to \$1,405,470.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

Steele County also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. Steele County pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides Steele County with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Steele County has worker's compensation with the Workforce, Safety and Insurance. The water resource district purchases commercial insurance for employee health and accident insurance.

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

**NOTE 20: JOINT VENTURE**

Under authorization of state statutes, Rush River Water Resource District joined Southeast Cass Water Resource District, North Cass Water Resource District, Maple River Water Resource District, and the water resource districts of Richland County, Grand Forks County, Pembina County, Traill County, Steele County, Walsh County, Nelson County, Ransom County, and Sargent County to establish and operate a joint exercise of powers agreement for the water management districts located within the Red River Valley. Known as the Red River Joint Water Resource Board, the agreement was established for the mutual advantage of the governments. Each government appoints one member of the board of directors for the joint venture. The operating and capital expenses are funded by contributions from each government. Each government's share of assets, liabilities, and fund equity cannot be determined as no provision is made for this in the joint venture agreement and each government's contribution each year depends on where Red River Joint Water Resource Board projects are being undertaken.

The following is a summary of financial information on the joint venture as of and for the years ended December 31, 2015, which is the most current audited information available:

Governmental Activities	Red River Joint Joint WRD
Total Assets	\$ 7,770,996
Total Liabilities	104,554
Net Position	\$ 7,666,442
Revenues	\$ 2,423,290
Expenses	2,582,765
Change in Net Position	\$ (159,475)

Complete financial statements for the Red River Joint Water Resource District may be obtained from the Treasurer's office at Red River Joint Water Resource District, 1201 Main Avenue West, West Fargo, ND 58078.

**NOTE 21: DEFICIT BALANCES**

The following fund was in a deficit cash position at December 31, 2015:

<b>Nonmajor Fund</b>	
911 Fund	(49,133)

This deficit will be eliminated with reimbursements from other entities or transfers from other funds.

**STEELE COUNTY**

## Notes to the Financial Statements - Continued

**NOTE 22: OPERATING LEASES**

The county leases copiers under non-cancelable operating leases. Total costs for such leases were \$1,815 for the year ended December 31, 2015. The future minimum lease payments for these leases are as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
<b>Year Ending December 31</b>	<b>Amounts</b>
2016	\$ 605

**NOTE 23: PRIOR PERIOD ADJUSTMENTS**

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

<b>Governmental Activities - County:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 10,611,952
<b>Adjustments to restate the January 1, 2015 Net Position:</b>	
Net Pension Liability	(423,829)
Deferred Outflows of Resources Related to Pensions	41,387
Deferred Inflows of Resources Related to Pensions	(82,733)
Net Position January 1, as restated	\$ 10,146,777

The effect of the prior period adjustments to the water resource district is as follows:

<b>Governmental Activities - Water Resource District:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 841,314
<b>Adjustments to restate the January 1, 2015 Net Position:</b>	
Net Pension Liability	(19,242)
Deferred Outflows of Resources Related to Pensions	1,879
Deferred Inflows of Resources Related to Pensions	(3,756)
Net Position January 1, as restated	\$ 820,195

The effect of the prior period adjustments to the job development authority is as follows:

<b>Governmental Activities - Job Development Authority:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 512,035
<b>Adjustments to restate the January 1, 2015 Net Position:</b>	
Net Pension Liability	(18,733)
Deferred Outflows of Resources Related to Pensions	1,829
Deferred Inflows of Resources Related to Pensions	(3,657)
Net Position January 1, as restated	\$ 491,474

STEELE COUNTY  
Finley, North Dakota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 588,000	\$ 588,000	\$ 596,458	\$ 8,458
Intergovernmental	236,303	236,303	251,380	15,077
Charges for services	193,851	193,851	180,188	(13,663)
Interest income	15,600	15,600	18,208	2,608
Miscellaneous	8,348	8,348	46,340	37,992
<b>Total Revenues</b>	<b>\$ 1,042,102</b>	<b>\$ 1,042,102</b>	<b>\$ 1,092,574</b>	<b>\$ 50,472</b>
<u>Expenditures:</u>				
Current:				
General government	\$ 811,582	811,582	\$ 504,873	\$ 306,709
Public safety	312,536	312,536	207,295	105,241
Health and welfare	76,262	76,262	71,820	4,442
Conservation of natural resources	48,000	48,000	43,474	4,526
<b>Total Expenditures</b>	<b>\$ 1,248,380</b>	<b>\$ 1,248,380</b>	<b>\$ 830,004</b>	<b>\$ 418,376</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (206,278)</b>	<b>\$ (206,278)</b>	<b>\$ 262,570</b>	<b>\$ 468,848</b>
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ -	\$ -	\$ 1,214	\$ 1,214
<b>Net Change in Fund Balances</b>	<b>\$ (206,278)</b>	<b>\$ (206,278)</b>	<b>\$ 263,784</b>	<b>\$ 470,062</b>
<b>Fund Balances - January 1</b>	<b>\$ 1,318,186</b>	<b>\$ 1,318,186</b>	<b>\$ 1,318,186</b>	<b>\$ -</b>
<b>Fund Balances - December 31</b>	<b>\$ 1,111,908</b>	<b>\$ 1,111,908</b>	<b>\$ 1,581,970</b>	<b>\$ 470,062</b>

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



STEELE COUNTY  
Finley, North Dakota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ -	\$ -	\$ 265,308	\$ 265,308
Intergovernmental	-	-	23,673	23,673
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 288,981</b>	<b>\$ 288,981</b>
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ 210,000	\$ 210,000	\$ 107,207	\$ 102,793
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (210,000)</b>	<b>\$ (210,000)</b>	<b>\$ 181,774</b>	<b>\$ 391,774</b>
Fund Balances - January 1	\$ 1,056,553	\$ 1,056,553	\$ 1,056,553	\$ -
Fund Balances - December 31	\$ 846,553	\$ 846,553	\$ 1,238,327	\$ 391,774

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

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STEELE COUNTY  
Finley, North Dakota

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

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 1,680,886	\$ 1,680,886
<u>Expenditures:</u>				
Current:				
Highways and bridges	\$ -	\$ 1,750,621	\$ 1,750,621	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (1,750,621)	\$ (69,735)	\$ 1,680,886
Fund Balances - January 1	\$ 561,433	\$ 561,433	\$ 561,433	\$ -
Fund Balances - December 31	\$ 561,433	\$ (1,189,188)	\$ 491,698	\$ 1,680,886

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

STEELE COUNTY  
Finley, North Dakota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 395,000	\$ 395,000	\$ 389,807	\$ (5,193)
Intergovernmental	24,550	24,550	24,179	(371)
Charges for services	140,000	140,000	148,813	8,813
Miscellaneous	10,808	10,808	1,158	(9,650)
Total Revenues	<u>\$ 570,358</u>	<u>\$ 570,358</u>	<u>\$ 563,957</u>	<u>\$ (6,401)</u>
<u>Expenditures:</u>				
Current:				
Highways and bridges	<u>\$ 915,504</u>	<u>\$ 915,504</u>	<u>\$ 623,371</u>	<u>\$ 292,133</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (345,146)</u>	<u>\$ (345,146)</u>	<u>\$ (59,414)</u>	<u>\$ 285,732</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ -	\$ -	\$ 772,376	\$ 772,376
Sale of Equipment	-	-	132,588	132,588
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 904,964</u>	<u>\$ 904,964</u>
Net Change in Fund Balances	<u>\$ (345,146)</u>	<u>\$ (345,146)</u>	<u>\$ 845,550</u>	<u>\$ 1,190,696</u>
Fund Balances - January 1	<u>\$ (278,087)</u>	<u>\$ (278,087)</u>	<u>\$ (278,087)</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ (623,233)</u></u>	<u><u>\$ (623,233)</u></u>	<u><u>\$ 567,463</u></u>	<u><u>\$ 1,190,696</u></u>

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

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STEELE COUNTY  
Finley, North Dakota

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

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ -	\$ 189,395	\$ 189,395
<u>Expenditures:</u>				
Current:				
Flood repairs	\$ 50,000	\$ 266,554	\$ 243,623	\$ 22,931
Excess (Deficiency) of Revenues Over Expenditures	\$ (50,000)	\$ (266,554)	\$ (54,228)	\$ 212,326
Fund Balances - January 1	\$ 60,225	\$ 60,225	\$ 60,225	\$ -
Fund Balances - December 31	\$ 10,225	\$ (206,329)	\$ 5,997	\$ 212,326

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

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STEELE COUNTY  
Finley, North Dakota

PENSION SCHEDULES  
For the Year Ended December 31, 2015

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

	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability (asset)	0.020699%	0.020542%
District's proportionate share of the net pension liability (asset)	\$ 140,752	\$ 130,381
District's covered-employee payroll	\$ 184,408	\$ 173,034
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

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

	<b>2015</b>	<b>2014</b>
Statutorily required contribution	\$ 13,130	\$ 12,320
Contributions in relation to the statutorily required contribution	\$ (13,130)	\$ (12,320)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 184,408	\$ 173,034
Contributions as a percentage of covered-employee payroll	7.12%	7.12%

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

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STEELE COUNTY  
Finley, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2015

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

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

**NOTE 2: BUDGET TO ACTUAL AMOUNTS – GENERAL**

The county entered into capital leases for two trucks and two backhoes in 2015. The capital lease financing and corresponding expenditures were reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds, but were not reported on the budgetary comparison schedule in the general fund. The county didn’t budget for these funds and these transactions were not recorded on the county’s general ledger. The differences are as follows:

<b>General Fund</b>	<b>Combined Statement</b>	<b>Adjustment</b>	<b>Budget to Actual</b>
<u>General Fund</u>			
Expenditures	\$ 842,713	\$ (12,709)	\$ 830,004
Lease Financing	12,709	(12,709)	-

**STEELE COUNTY**

Notes to the Required Supplementary Information – Continued

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**NOTE 3: PENSIONS - CHANGES OF ASSUMPTIONS**

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

STEELE COUNTY  
Finley, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12-31-15
<b>Major Funds:</b>							
General Fund	\$ 1,201,087.75	\$ 1,340,594.62	\$ 1,214.48	\$ -	\$ -	\$ 787,776.91	\$ 1,755,119.94
Capital Projects General Fund	35,428.99	-	-	-	-	42,227.00	(6,798.01)
Total General Fund	\$ 1,236,516.74	\$ 1,340,594.62	\$ 1,214.48	\$ -	\$ -	\$ 830,003.91	\$ 1,748,321.93
<b>Special Revenue Funds:</b>							
Farm to Market Road	\$ 1,049,085.04	\$ 369,290.06	\$ -	\$ -	\$ -	\$ 107,207.41	\$ 1,311,167.69
Road Construction	561,433.42	1,680,886.08	-	-	-	1,750,621.30	491,698.20
County Road and Bridge	(237,704.75)	676,668.65	772,376.33	132,588.00	-	642,770.26	701,157.97
911 Fund	(25,461.58)	7,590.55	-	-	-	31,261.91	(49,132.94)
FEMA	380,349.84	50,099.31	-	-	-	243,623.63	186,825.52
Total Major Special Revenue Funds	\$ 1,727,701.97	\$ 2,784,534.65	\$ 772,376.33	\$ 132,588.00	\$ -	\$ 2,775,484.51	\$ 2,641,716.44
Total Major Funds	\$ 2,964,218.71	\$ 4,125,129.27	\$ 773,590.81	\$ 132,588.00	\$ -	\$ 3,605,488.42	\$ 4,390,038.37
<b>Non-Major Funds:</b>							
<b>Special Revenue Funds:</b>							
County Sales Tax	\$ 633,428.87	\$ 231,118.25	\$ -	\$ -	\$ -	\$ 252,000.00	\$ 612,547.12
Utility Permits	75,029.99	-	-	-	70,000.00	-	5,029.99
Weight Restriction Management	15,734.48	11,892.57	-	-	-	3,439.98	24,187.07
Highway Tax Distribution	605,202.22	334,285.64	-	-	702,376.33	-	237,111.53
County Road - 5 Mill	364,209.05	183,286.41	-	-	-	6,242.10	541,253.36
Correctional Facility	27,617.59	49,730.30	-	-	-	31,003.74	46,344.15
County Share of Specials	889.14	-	-	-	-	270.00	619.14
Human Services Fund	374,160.99	307,572.90	-	-	-	309,020.38	372,713.51
Foster Care	5,486.34	13,600.00	-	-	-	12,525.00	6,561.34
911 Wireless Fund	59,716.19	30,821.27	-	-	-	-	90,537.46
Insurance Reserve	137,911.73	77,188.13	-	-	-	44,461.56	170,638.30
Hazardous Chemical Preparedness	3,795.86	500.00	-	-	-	-	4,295.86
Emergency Fund	314,877.63	52,918.77	-	-	-	-	367,796.40
Veterans Service Officer	8,411.54	11,305.82	-	-	-	9,596.47	10,120.89
Oasis and Social Security	567,091.71	140,434.90	-	-	-	218,717.26	488,809.35
Health Care Insurance	157,199.66	158,378.60	-	-	-	179,620.31	135,957.95
County Agent	132,404.35	35,182.98	-	-	-	42,255.98	125,331.35
County Agent Special Fund	6,224.55	594.66	-	-	-	4,158.96	2,660.25
Weed Control	87,564.64	61,883.76	-	-	-	22,537.47	126,910.93
County Park	46,265.38	84,100.54	-	-	-	117,360.41	13,005.51
Document Preservation Fund	23,891.84	4,978.75	-	-	-	1,969.10	26,901.49
Total Non-Major Special Revenue Funds	\$ 3,647,113.75	\$ 1,789,774.25	\$ -	\$ -	\$ 772,376.33	\$ 1,255,178.72	\$ 3,409,332.95
<b>Debt Service Funds (Non-Major):</b>							
County Bond	\$ (1,579.86)	\$ 302,223.79	\$ -	\$ -	\$ -	\$ 203,664.00	\$ 96,979.93
County Bond 2001	601.70	612.78	-	-	1,214.48	-	-
Total Debt Service Funds	\$ (978.16)	\$ 302,836.57	\$ -	\$ -	\$ 1,214.48	\$ 203,664.00	\$ 96,979.93
Total Non-Major Funds	\$ 3,646,135.59	\$ 2,092,610.82	\$ -	\$ -	\$ 773,590.81	\$ 1,458,842.72	\$ 3,506,312.88
Total Governmental Funds	\$ 6,610,354.30	\$ 6,217,740.09	\$ 773,590.81	\$ 132,588.00	\$ 773,590.81	\$ 5,064,331.14	\$ 7,896,351.25

Continued on next page.....



STEELE COUNTY  
Finley, North Dakota

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS  
For the Year Ended December 31, 2015

CONTINUED.....	Balance 1-1-15	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12-31-15
<u>Agency Funds:</u>							
Job Development Authority	\$ 106.11	\$ 93,325.13	\$ -	\$ -	\$ -	\$ 73,791.62	\$ 19,639.62
Senior Citizens	42.44	59,503.74	-	-	-	51,690.29	7,855.89
Historical Society	31.84	26,883.82	-	-	-	21,023.75	5,891.91
State Tax	42.44	34,821.16	-	-	-	27,007.71	7,855.89
Civil Filing Fees	1,250.00	-	-	-	-	-	1,250.00
Game and Fish License	716.00	7,953.00	-	-	-	7,809.00	860.00
Victim Advocacy	1,850.00	-	-	-	-	-	1,850.00
Court Costs	400.00	-	-	-	-	-	400.00
Payroll Deductions	(6,589.91)	-	-	-	-	3,086.01	(9,675.92)
Estimated Tax	645.03	3,205.49	-	-	-	2,998.20	852.32
Mobile Home Tax	822.47	1,642.38	-	-	-	-	2,464.85
Steele County Soil Conservation	38.94	36,711.09	-	-	-	28,894.23	7,855.80
Emergency Medical Services	-	139,735.89	-	-	-	105,376.76	34,359.13
Total Cities	3,463.47	553,751.78	-	-	-	470,804.18	86,411.07
Total Parks	255.72	62,443.48	-	-	-	53,046.07	9,653.13
Total Schools	(27,797.82)	2,721,541.64	-	-	-	2,086,669.02	607,074.80
Total Townships	617.80	1,086,915.72	-	-	-	924,311.62	163,221.90
Total Water Resource District	565.27	471,619.66	-	-	-	350,027.57	122,157.36
Total Rural Fire Districts	1,227.60	237,877.21	-	-	-	195,713.05	43,391.76
Unapportioned Taxes	1,009,661.12	-	-	-	-	1,009,661.12	-
<b>Total Agency Funds</b>	<b>\$ 987,348.52</b>	<b>\$ 5,537,931.19</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,411,910.20</b>	<b>\$ 1,113,369.51</b>
<b>Total Primary Government</b>	<b>\$ 7,597,702.82</b>	<b>\$ 11,755,671.28</b>	<b>\$ 773,590.81</b>	<b>\$ 132,588.00</b>	<b>\$ 773,590.81</b>	<b>\$ 10,476,241.34</b>	<b>\$ 9,009,720.76</b>

STATE AUDITOR

ROBERT R. PETERSON  
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MANAGER – DAVID MIX  
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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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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**

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Independent Auditor's Report

Board of County Commissioners  
Steele County  
Finley, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Steele County as of and for the years ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Steele County's basic financial statements, and have issued our report thereon dated September 23, 2016.

**Internal Control Over Financial Reporting**

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* that we consider to be a significant deficiency [2015-001].

## STEELE COUNTY

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

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#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Steele County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

#### **Steele County's Response to Findings**

Steele County's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Steele County's response was not subjected to the auditing procedures applied in the audit 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
September 23, 2016

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STEELE COUNTY  
Finley, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2015

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**Section I - Summary of Auditor's Results**

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Financial Statements

Type of Auditor's Report Issued?	
Governmental Activities	Unmodified
Component Unit – Water Resource District	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified?	<u>      </u> Yes	<u>  X  </u> None noted
Significant deficiencies identified not considered to be material weaknesses?	<u>  X  </u> Yes	<u>  X  </u> None noted
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> None noted

**Section II – Financial Statement Findings**

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**2015-001 – LACK OF REVENUE BUDGET**

**Condition:**

Steele County did not have budgeted revenues and transfers information for all required funds in the 2015 budget. While information was present for the General Fund and several highway funds, amounts were missing from several funds.

**Effect:**

The potential revenue collected, transfers, and fund balance information for several funds may have had an impact on the approved 2015 budgets for said funds, including the proper calculation of tax levies.

**Cause:**

The client was unable to produce the 2015 revenue budget document for all required funds. Client may not have been aware of the full impact that NDCC section 11-23-02 had on the overall budgeting process.

**STEELE COUNTY**

Schedule of Findings and Questioned Costs – Continued

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**Criteria:**

NDCC 11-23-02 section states “...*The county auditor shall prepare an annual budget for the general fund, each special revenue fund, and each debt service fund of the county in the form prescribed by the state auditor. The budget must set forth specifically:*

1. *The detailed breakdown of the estimated revenues and appropriations requested for each fund for the ensuing year.*
2. *The detailed breakdown of the revenues and expenditures for each fund for the preceding year.*
3. *The detailed breakdown of estimated revenues and expenditures for each fund for the current year.*
4. *The transfers in or out for each fund for the preceding year and the estimated transfers in or out for the current year and the ensuing year.*
5. *The beginning and ending balance of each fund or estimates of the balances for the preceding year, current year, and ensuing year.*
6. *The tax levy request for any funds levying taxes for the ensuing year.*
7. *The certificate of levy showing the amount levied for each fund and the total amount levied.*
8. *The budget must be prepared on the same basis of accounting used by the county for its annual financial reports.*
9. *The amount of cash reserve for the general fund and each special revenue fund, not to exceed seventy-five percent of the appropriation for the fund.”*

**Recommendation:**

We recommend Steele County carefully budget revenues and transfers for all required funds to ensure compliance with NDCC section 11-23-02 by including all items listed in that section.

**Views of Responsible Officials / Planned Corrective Actions:**

Client agrees with recommendation regarding the missing revenue budget for several funds. Revenue budgets will be in the accounting software for all funds going forward.

**STATE AUDITOR**

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600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

Board of County Commissioners  
Steele County  
Finley, North Dakota

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of Steele County, Finley, North Dakota, for the years ended December 31, 2015 which collectively comprise the County’s basic financial statements, and have issued our report thereon dated September 23, 2016. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

**SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

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

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

**DISAGREEMENTS WITH MANAGEMENT**

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

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated September 23, 2016.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**OTHER AUDIT FINDINGS OR ISSUES**

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

The following presents our informal recommendations:

\*\*\*\*\*

**LACK OF SOCIAL SERVICE DOCUMENTATION**

During our testing of the SFN 119's in 2015, it was noted that the County Social Service office does not reconcile their fund balance with the County's general ledger. An adequate check and balance system was not in place to oversee that the Social Service Office was correctly preparing their SFN 119 reports in 2015 and also agreeing their fund balance to the County's ledger on a regular basis.

We recommend that the Social Service Office and the County reconcile on a regular basis to ensure that both the Social Service and County records are up to date and accurate at all times.

**UNDER-PLEDGED SECURITIES**

A review of client documentation of securities pledged indicated that Steele County was under-pledged at 2/28/15 at Citizens State Bank by \$778,814; and, at 2/28/15 at First Financial Bank by \$23,660. NDCC 21-04-09 states in part "when securities are so pledged to the board of any public corporation, the board shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits." Pledges are to be maintained in the amount of 110% above FDIC coverage.

**STEELE COUNTY**

Management's Letter - Continued

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NDCC 21-04-09 states in part "when securities are so pledged to the board of any public corporation, the board shall require security in the amount of one hundred ten dollars for every one hundred dollars of public deposits." Pledges are to be maintained in the amount of 110% above FDIC coverage.

We recommend that adequate pledges of securities are maintained at all times in accordance with state law. We further recommend that the client pay special attention to high-balance months.

**PLEDGES OF SECURITIES - APPROVAL**

Pledges of securities/assets were not approved semi-annually by the county's governing board as required by state law. They are only approved once a year in June.

North Dakota Century Code Section (NDCC) 21-04-11 states 'The board of the public corporation, upon the acceptance of any securities as a pledge for repayment of deposits, shall make a complete and detailed record of such acceptance and approval and shall preserve the same with its other records. Such securities must be re-approved by the board at least semiannually'.

We recommend that the Steele County re-approve pledges of securities at least twice per year in accordance with state law.

**LACK OF SUPPORTING DOCUMENTATION - JDA**

Out of the fifteen expenditures tested in our audit sample for the Steele County JDA, one did not have adequate documentation supporting the amount spent and recorded in the check register. Strong/effective internal control over properly reporting and processing expenditures requires obtaining and maintaining invoices or other appropriate documentation to support the reason for the expenditure.

We recommend that the Steele County JDA maintain adequate supporting documentation for all expenditures.

\*\*\*\*\*

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

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



Robert R. Peterson  
State Auditor

September 23, 2016



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