

AUDIT REPORT

CITY OF STEELE
Steele, North Dakota

For the Years Ended December 31, 2016 and 2015

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STEELE
Steele, North Dakota

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CITY OF STEELE
Steele, North Dakota

CITY OFFICIALS

Ed Miller	Mayor
Bob Anderson	Council Member
David Goetz	Council Member
Jim Goetz	Council Member
Jon Harter	Council Member
Doni Irish	Council Member
Josh Rode	Council Member
Norm Fries	Auditor

Rath & Mehner, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Steele
Steele, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of December 31, 2016 and 2015, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2017 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 8, 2017

CITY OF STEELE

Management's Discussion and Analysis

December 31, 2016 and 2015

The Management's Discussion and Analysis (MD&A) of the City of Steele's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2016 and 2015. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city decreased \$5,421 as a result of the current year's operations. Net position of the governmental activities decreased \$27,297 and net position of the business-type activities increased \$21,875.
- * Governmental net position totaled \$748,161 and business-type net position totaled \$857,665.
- * Total revenues from all sources were \$618,718 for governmental activities and \$467,254 for business-type activities.
- * Total expenses were \$601,515 for governmental activities and \$489,879 for business-type activities.
- * The city's general fund had \$225,789 in total revenues and \$190,725 in total expenditures. There was a total of \$39,000 paid from other financing uses. Overall, the general fund balance decreased by \$3,936 for the year ended December 31, 2016.

Key financial highlights for the year ended December 31, 2015 are as follows:

- * Total net position of the city increased \$75,076 as a result of the current year's operations. Net position of the governmental activities decreased \$1,566 and net position of the business-type activities increased \$76,643.
- * Governmental net position totaled \$775,457 and business-type net position totaled \$835,790.
- * Total revenues from all sources were \$649,315 for governmental activities and \$472,874 for business-type activities.
- * Total expenses were \$665,881 for governmental activities and \$381,231 for business-type activities.
- * The city's general fund had \$210,422 in total revenues and \$245,495 in total expenditures. There was a total of \$39,200 from other financing sources. Overall, the general fund balance increased by \$4,127 for the year ended December 31, 2015.

USING THIS ANNUAL REPORT

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

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

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

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2016 and 2015?"

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

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

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

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

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position decreased by \$5,421 and increased by \$75,076 for the years ended December 31, 2016 and 2015, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2016, the city's net position of \$1,605,826 is segregated into three separate categories. Net investment in capital assets represents 63% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 27% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 10% of the city's net position and is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2016

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

As of December 31, 2015, the city's net position of \$1,611,247 is segregated into three separate categories. Net investment in capital assets represents 66% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 26% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 8% of the city's net position and is available to meet the city's ongoing obligations.

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	390,797	155,916
Capital Assets (net of accumulated depreciation)	773,438	1,509,974
Total Assets	<u>1,164,235</u>	<u>1,665,890</u>
<u>Liabilities</u>		
Current Liabilities	40,897	19,100
Long-Term Liabilities	347,881	811,000
Total Liabilities	<u>388,778</u>	<u>830,100</u>
<u>Net Position</u>		
Net Investment in Capital Assets	384,660	679,874
Restricted	381,166	41,649
Unrestricted	9,631	114,267
Total Net Position	<u>775,457</u> =====	<u>835,790</u> =====

Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	357,132	117,445
Capital Assets (net of accumulated depreciation)	464,224	1,490,302
Total Assets	<u>821,356</u>	<u>1,607,747</u>
<u>Liabilities</u>		
Current Liabilities	10,555	18,500
Long-Term Liabilities	33,778	830,100
Total Liabilities	<u>44,333</u>	<u>848,600</u>
<u>Net Position</u>		
Net Investment in Capital Assets	419,891	641,702
Restricted	351,628	37,965
Unrestricted	5,504	79,480
Total Net Position	<u>777,024</u> =====	<u>759,147</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2016 and 2015. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II

Changes in Net Position
As of December 31, 2016

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

Property taxes constituted 11%, other taxes 23%, unrestricted intergovernmental 6%, operating grants and contributions 17%, and charges for services made up 40% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 9%, public safety 7%, streets and public works 20%, and enterprise 45% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	18,069	410,667
Operating Grants and Contributions	194,146	62,000
<u>General Revenues:</u>		
Property Taxes	79,349	
Other Taxes	254,417	
Intergovernmental - Unrestricted	88,320	
Interest Earnings and Other Revenue	15,014	207
Total Revenues	<u>649,315</u>	<u>472,874</u>
Expenses		
General Government	117,672	
Public Safety	94,021	
Streets and Public Works	208,914	
Health and Welfare	154,727	
Urban and Economic Development	31,140	
Culture and Recreation	42,000	
Other	4,586	
Interest on Long-Term Debt	7,196	
Bond Issue Costs	5,625	
Water		249,114
Sewer		10,337
Garbage		121,781
Total Expenses	<u>665,881</u>	<u>381,231</u>
Net Change in Position Before Transfers	<u>(16,566)</u>	<u>91,643</u>
Transfers	<u>15,000</u>	<u>(15,000)</u>
Net Change in Position	<u>(1,566)</u> =====	<u>76,643</u> =====

Property taxes constituted 7%, other taxes 23%, unrestricted intergovernmental 8%, operating grants and contributions 23%, and charges for services made up 38% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 11%, public safety 9%, streets and public works 20%, and enterprise 36% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	4,185	353,097
Operating Grants and Contributions	99,971	
<u>General Revenues:</u>		
Property Taxes	96,596	
Other Taxes	284,174	
Intergovernmental - Unrestricted	86,035	
Interest Earnings and Other Revenue	33,303	1,375
Total Revenues	<u>604,264</u>	<u>354,472</u>
Expenses		
General Government	188,829	
Public Safety	63,558	
Streets and Public Works	364,481	
Health and Welfare	143,244	
Urban and Economic Development	85,033	
Culture and Recreation	15,000	
Interest on Long-Term Debt	453	
Water		257,820
Sewer		9,882
Garbage		76,708
Total Expenses	<u>860,597</u>	<u>344,410</u>
Net Change in Position	<u>(256,333)</u> =====	<u>10,063</u> =====

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

Table III

Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	101,315	89,962
Public Safety	71,131	69,356
Streets and Public Works	217,892	119,180
Health and Welfare	149,987	149,987
Urban and Economic Development	36,306	29,129
Culture and Recreation	15,000	15,000
Interest on Long-Term Debt	9,883	(28,902)
 Total Expenses	 <u>601,515</u> =====	 <u>443,713</u> =====

Total and Net Cost of Services
As of December 31, 2015

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	117,672	76,067
Public Safety	94,021	92,871
Streets and Public Works	208,914	105,078
Health and Welfare	154,727	154,727
Urban and Economic Development	31,140	(8,727)
Culture and Recreation	42,000	42,000
Other	4,586	4,586
Interest on Long-Term Debt	7,196	(18,560)
Bond Issue Costs	5,625	5,625
 Total Expenses	 <u>665,881</u> =====	 <u>453,666</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$618,718 and expenditures of \$626,348 for the year ended December 31, 2016. For the year ended December 31, 2015, the city's governmental funds had total revenue of \$649,315 and expenditures of \$1,000,025. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$5,695. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$9,631.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2016 and 2015, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2016 was \$9,188 less than budgeted. Actual expenditures for the year ended December 31, 2016 were under budget by \$46,252. The budget variance was due to the city overestimating appropriations for general government and public safety expenditures.

Actual revenue for the year ended December 31, 2015 was \$1,278 less than budgeted. Actual expenditures for the year ended December 31, 2015 were over budget by \$33,795. The budget variance was due to the city not including an appropriation for the purchase of a new police vehicle.

CAPITAL ASSETS

As of December 31, 2016 and 2015, the city had \$2,213,532 and \$2,283,412, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type activities, as of December 31, 2016, 2015 and 2014.

Table IV

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

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

This total represents a decrease of \$69,880 in capital assets from January 1, 2016. The increase in machinery and vehicles was due to the city purchasing a 2014 Durapatcher.

Capital Assets (Net of Accumulated Depreciation) As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Land	40,000	
Buildings and Infrastructure	613,575	1,508,974
Machinery and Vehicles	119,863	1,000
Total (net of depreciation)	<u>773,438</u>	<u>1,509,974</u>
	=====	=====

This total represents an increase of \$328,886 in capital assets from January 1, 2015. The increase in capital assets was the result of infrastructure project and the purchase of a 2015 Dodge Ram 1500 pickup.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Land	40,000	
Buildings and Infrastructure	302,753	1,488,802
Machinery and Vehicles	121,471	1,500
Total (net of depreciation)	<u>464,224</u> =====	<u>1,490,302</u> =====

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

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$1,208,881 in outstanding debt of which \$82,034 was due within one year. As of December 31, 2015, the city had \$1,218,878 in outstanding debt of which \$59,997 was due within one year.

During fiscal years 2016 and 2015, the city issued two new long-term debt obligation:

Bank Loan Payable in the amount of \$50,000. The city received these proceeds to fund the purchase of a 2014 Durapatcher. This loan will have a final payment on February 19, 2019.

Revenue Bonds Payable in the amount of \$375,000. The city issued the Sales Tax Revenue Bonds, Series 2015 to fund an infrastructure project. This bonds will have a final payment on November 1, 2025.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	326,008.97	212,507.07	538,516.04
Economic Development Loans Receivable	42,158.58		42,158.58
Advance to Kidder County Community Health Care	20,500.00		20,500.00
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	567,039.00	1,455,658.00	2,022,697.00
Machinery and Vehicles	150,335.00	500.00	150,835.00
Total Capital Assets	757,374.00	1,456,158.00	2,213,532.00
Total Assets	1,146,041.55	1,668,665.07	2,814,706.62
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loans Payable	27,433.92		27,433.92
Revenue Bonds Payable	35,000.00	19,600.00	54,600.00
Due After One Year:			
Bank Loans Payable	45,446.87		45,446.87
Revenue Bonds Payable	290,000.00	791,400.00	1,081,400.00
Total Liabilities	397,880.79	811,000.00	1,208,880.79
NET POSITION:			
Net Investment in Capital Assets	359,493.21	645,158.00	1,004,651.21
Restricted for:			
Debt Service		45,333.00	45,333.00
Special Purposes	382,972.08		382,972.08
Unrestricted	5,695.47	167,174.07	172,869.54
Total Net Position	748,160.76	857,665.07	1,605,825.83

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

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	320,865.73	155,915.84	476,781.57
Economic Development Loans Receivable	49,431.39		49,431.39
Advance to Kidder County Community Health Care	20,500.00		20,500.00
Capital Assets (net of accumulated depreciation):			
Land	40,000.00		40,000.00
Buildings and Infrastructure	613,575.00	1,508,974.00	2,122,549.00
Machinery and Vehicles	119,863.00	1,000.00	120,863.00
Total Capital Assets	773,438.00	1,509,974.00	2,283,412.00
Total Assets	1,164,235.12	1,665,889.84	2,830,124.96
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Bank Loan Payable	10,897.00		10,897.00
Revenue Bonds Payable	30,000.00	19,100.00	49,100.00
Due After One Year:			
Bank Loan Payable	22,880.79		22,880.79
Revenue Bonds Payable	325,000.00	811,000.00	1,136,000.00
Total Liabilities	388,777.79	830,100.00	1,218,877.79
NET POSITION:			
Net Investment in Capital Assets	384,660.21	679,874.00	1,064,534.21
Restricted for:			
Debt Service		41,649.00	41,649.00
Special Purposes	381,165.96		381,165.96
Unrestricted	9,631.16	114,266.84	123,898.00
Total Net Position	775,457.33	835,789.84	1,611,247.17

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

CITY OF STEELE
Steele, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs					
Primary Government:					
Governmental Activities:					
General Government	101,314.97	11,352.75		(89,962.22)	(89,962.22)
Public Safety	71,131.12	1,775.10		(69,356.02)	(69,356.02)
Streets and Public Works	217,892.02	16,827.01	81,884.59	(119,180.42)	(119,180.42)
Health and Welfare	149,987.47			(149,987.47)	(149,987.47)
Urban and Economic Development	36,306.01		7,177.19	(29,128.82)	(29,128.82)
Culture and Recreation	15,000.00			(15,000.00)	(15,000.00)
Interest on Long-Term Debt	9,883.00		38,785.00	28,902.00	28,902.00
Total Governmental Activities	601,514.59	29,954.86	127,846.78	(443,712.95)	(443,712.95)
Business-Type Activities:					
Water Operating	299,845.60	253,260.73	31,352.11		(15,232.76)
Sewer Operating	62,131.69	25,526.69	28,288.86		(8,316.14)
Garbage Operating	127,901.77	128,820.88			919.11
Total Business-Type Activities	489,879.06	407,608.30	59,640.97		(22,629.79)
Total Primary Government	1,091,393.65	437,563.16	187,487.75	(443,712.95)	(22,629.79)
=====					
General Revenues:					
Taxes:					
Property taxes; levied for general purposes				116,758.74	116,758.74
Property taxes; levied for special purposes				5,879.60	5,879.60
Sales taxes				243,011.46	243,011.46
Occupancy taxes				9,040.61	9,040.61
Cigarette taxes				2,164.04	2,164.04
Intergovernmental revenue not restricted to specific programs				69,280.78	69,280.78
Earnings on investments and other revenue				14,781.15	5.02
Transfers				(44,500.00)	44,500.00
Total General Revenues and Transfers				416,416.38	44,505.02
Change in Net Position				(27,296.57)	21,875.23
Net Position - January 1				775,457.33	835,789.84
Net Position - December 31				748,160.76	857,665.07
=====					

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

CITY OF STEELE
Steele, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2015

Net (Expense) Revenue and Changes in Net Position						
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
<u>Primary Government:</u>						
<u>Governmental Activities:</u>						
General Government	117,671.60	4,605.00	37,000.00	(76,066.60)		(76,066.60)
Public Safety	94,021.05	1,150.00		(92,871.05)		(92,871.05)
Streets and Public Works	208,914.23	12,313.99	91,522.69	(105,077.55)		(105,077.55)
Health and Welfare	154,726.72			(154,726.72)		(154,726.72)
Urban and Economic Development	31,140.46		39,866.99	8,726.53		8,726.53
Culture and Recreation	42,000.00			(42,000.00)		(42,000.00)
Other	4,585.92			(4,585.92)		(4,585.92)
Interest on Long-Term Debt	7,196.18		25,756.18	18,560.00		18,560.00
Bond Issue Costs	5,625.00			(5,625.00)		(5,625.00)
Total Governmental Activities	665,881.16	18,068.99	194,145.86	(453,666.31)		(453,666.31)
<u>Business-Type Activities:</u>						
Water	249,113.85	258,772.28	62,000.00		71,658.43	71,658.43
Sewer	10,336.75	27,572.69			17,235.94	17,235.94
Garbage	121,780.68	124,322.12			2,541.44	2,541.44
Total Business-Type Activities	381,231.28	410,667.09	62,000.00		91,435.81	91,435.81
Total Primary Government	1,047,112.44	428,736.08	256,145.86	(453,666.31)	91,435.81	(362,230.50)
=====						
<u>General Revenues:</u>						
<u>Taxes:</u>						
Property taxes; levied for general purposes				53,173.61		53,173.61
Property taxes; levied for special purposes				26,175.45		26,175.45
Sales taxes				244,131.02		244,131.02
Occupancy taxes				7,965.25		7,965.25
Cigarette taxes				2,320.68		2,320.68
Intergovernmental revenue not restricted to specific programs				88,320.08		88,320.08
Earnings on investments and other revenue				15,013.93	206.93	15,220.86
Transfers				15,000.00	(15,000.00)	
Total General Revenues and Transfers				452,100.02	(14,793.07)	437,306.95
Change in Net Position				(1,566.29)	76,642.74	75,076.45
Net Position - January 1				777,023.62	759,147.10	1,536,170.72
Net Position - December 31				775,457.33	835,789.84	1,611,247.17

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

CITY OF STEELE
Steele, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
ASSETS:					
Cash, Cash Equivalents and Investments	38,819.54	44,765.65	202,361.48	40,062.30	326,008.97
Economic Development Loans Receivable			42,158.58		42,158.58
Advance to Kidder County Community Health Care			20,500.00		20,500.00
Total Assets	38,819.54	44,765.65	265,020.06	40,062.30	388,667.55
FUND BALANCES					
Nonspendable:					
Economic Development Loans			42,158.58		42,158.58
Advance to Kidder County Community Health Care			20,500.00		20,500.00
Restricted for:					
Streets and Public Works		44,765.65			44,765.65
Urban and Economic Development			202,361.48	36,940.38	239,301.86
Safe Route	32,521.79				32,521.79
Horizon Project	602.28				602.28
150th Celebration				3,121.92	3,121.92
Unassigned	5,695.47				5,695.47
Total Fund Balances	38,819.54	44,765.65	265,020.06	40,062.30	388,667.55

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

CITY OF STEELE
Steele, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2015

	Major Funds			Other	Total
	General	Street	Sales and Use Tax	Governmental Funds	Governmental Funds
ASSETS:					
Cash, Cash Equivalents and Investments	42,755.23	10,978.98	224,563.90	42,567.62	320,865.73
Economic Development Loans Receivable			49,431.39		49,431.39
Advance to Kidder County Community Health Care			20,500.00		20,500.00
Total Assets	42,755.23	10,978.98	294,495.29	42,567.62	390,797.12
=====					
FUND BALANCES					
Nonspendable:					
Economic Development Loans			49,431.39		49,431.39
Advance to Kidder County Community Health Care			20,500.00		20,500.00
Restricted for:					
General Government				9,697.83	9,697.83
Streets and Public Works		10,978.98			10,978.98
Urban and Economic Development			224,563.90	29,749.43	254,313.33
Safe Route	32,521.79				32,521.79
Horizon Project	602.28				602.28
150th Celebration				3,120.36	3,120.36
Unassigned	9,631.16				9,631.16
Total Fund Balances	42,755.23	10,978.98	294,495.29	42,567.62	390,797.12
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The accompanying notes are an integral part of these financial statements.

CITY OF STEELE
Steele, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds		388,667.55
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	1,609,644.00	
Less Accumulated Depreciation	(852,270.00)	
Net Capital Assets		757,374.00
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:		
Bank Loan Payable	(72,880.79)	
Revenue Bonds Payable	(325,000.00)	
Total Liabilities		(397,880.79)
Total Net Position of Governmental Activities		748,160.76

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

CITY OF STEELE
Steele, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds	390,797.12
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Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	1,552,844.00	
Less Accumulated Depreciation	(779,406.00)	
Net Capital Assets		773,438.00

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

Bank Loan Payable	(33,777.79)	
Revenue Bonds Payable	(355,000.00)	
Total Liabilities		(388,777.79)

Total Net Position of Governmental Activities	775,457.33
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The accompanying notes are an integral part of these financial statements.

CITY OF STEELE
Steele, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
Revenues:					
Taxes	116,758.74	66,604.51	182,258.64	9,068.52	374,690.41
Special Assessments		38,785.00			38,785.00
Licenses, Permits and Fees	1,568.50				1,568.50
Intergovernmental	71,444.82	81,884.59			153,329.41
Charges for Services		6,936.01			6,936.01
Fines and Forfeitures	11,559.35				11,559.35
Miscellaneous	24,457.56		7,297.22	94.56	31,849.34
Total Revenues	225,788.97	194,210.11	189,555.86	9,163.08	618,718.02
Expenditures:					
Current:					
General Government	89,203.23			9,725.74	98,928.97
Public Safety	66,678.12				66,678.12
Streets and Public Works	31,361.58	122,343.44			153,705.02
Health and Welfare	3,481.73		146,505.74		149,987.47
Urban and Economic Development			32,525.35	1,942.66	34,468.01
Culture and Recreation			15,000.00		15,000.00
Capital Outlay		56,800.00			56,800.00
Debt Service:					
Principal		40,897.00			40,897.00
Interest		9,883.00			9,883.00
Total Expenditures	190,724.66	229,923.44	194,031.09	11,668.40	626,347.59
Excess (Deficiency) of Revenues Over Expenditures	35,064.31	(35,713.33)	(4,475.23)	(2,505.32)	(7,629.57)
Other Financing Sources (Uses):					
Transfers In		19,500.00			19,500.00
Transfers Out	(39,000.00)		(25,000.00)		(64,000.00)
Proceeds from Bank Loan		50,000.00			50,000.00
Total Other Financing Sources (Uses)	(39,000.00)	69,500.00	(25,000.00)		5,500.00
Net Change in Fund Balances	(3,935.69)	33,786.67	(29,475.23)	(2,505.32)	(2,129.57)
Fund Balance - January 1	42,755.23	10,978.98	294,495.29	42,567.62	390,797.12
Fund Balance - December 31	38,819.54	44,765.65	265,020.06	40,062.30	388,667.55

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

CITY OF STEELE
Steele, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2015

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Street	Sales and Use Tax		
Revenues:					
Taxes	53,173.61	7,138.16	244,131.02	27,002.54	331,445.33
Special Assessments		25,756.18			25,756.18
Licenses, Permits and Fees	4,605.00				4,605.00
Intergovernmental	90,640.76	91,522.69			182,163.45
Charges for Services		2,648.99			2,648.99
Fines and Forfeitures	1,150.00				1,150.00
Miscellaneous	60,852.94		40,606.73	86.25	101,545.92
Total Revenues	210,422.31	127,066.02	284,737.75	27,088.79	649,314.87
Expenditures:					
Current:					
General Government	99,585.66			15,699.94	115,285.60
Public Safety	88,642.05				88,642.05
Streets and Public Works	27,890.18	107,517.05			135,407.23
Health and Welfare	2,661.20		152,065.52		154,726.72
Urban and Economic Development			28,517.40	785.06	29,302.46
Culture and Recreation			42,000.00		42,000.00
Other		4,585.92			4,585.92
Capital Outlay	26,716.00	365,608.00			392,324.00
Debt Service:					
Principal		30,555.00			30,555.00
Interest		7,196.18			7,196.18
Total Expenditures	245,495.09	515,462.15	222,582.92	16,485.00	1,000,025.16
Excess (Deficiency) of Revenues Over Expenditures	(35,072.78)	(388,396.13)	62,154.83	10,603.79	(350,710.29)
Other Financing Sources (Uses):					
Transfers In	39,200.00	15,000.00			54,200.00
Transfers Out			(39,200.00)		(39,200.00)
Revenue Bonds Issued		375,000.00			375,000.00
Bond Issue Costs		(5,625.00)			(5,625.00)
Total Other Financing Sources (Uses)	39,200.00	384,375.00	(39,200.00)		384,375.00
Net Change in Fund Balances	4,127.22	(4,021.13)	22,954.83	10,603.79	33,664.71
Fund Balance - January 1	38,628.01	15,000.11	271,540.46	31,963.83	357,132.41
Fund Balance - December 31	42,755.23	10,978.98	294,495.29	42,567.62	390,797.12
=====					

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

CITY OF STEELE
Steele, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds	(2,129.57)
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	56,800.00	
Current Year Depreciation Expense	(72,864.00)	(16,064.00)

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

Debt Proceeds	(50,000.00)	
Repayment of Debt	40,897.00	(9,103.00)

Change in Net Position of Governmental Activities	(27,296.57)
	=====

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

CITY OF STEELE
Steele, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	33,664.71
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	392,324.00	
Current Year Depreciation Expense	(83,110.00)	309,214.00

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

Debt Proceeds	(375,000.00)	
Repayment of Debt	30,555.00	(344,445.00)

Change in Net Position of Governmental Activities	(1,566.29)

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

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	156,772.62	44,419.67	11,314.78	212,507.07
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,299,689.00	155,969.00		1,455,658.00
Machinery and Vehicles		500.00		500.00
Total Noncurrent Assets	1,299,689.00	156,469.00		1,456,158.00
Total Assets	1,456,461.62	200,888.67	11,314.78	1,668,665.07
=====				
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	19,600.00			19,600.00
<u>Noncurrent Liabilities:</u>				
Revenue Bonds Payable	791,400.00			791,400.00
Total Liabilities	811,000.00			811,000.00
<u>NET POSITION</u>				
Net Investment in Capital Assets	488,689.00	156,469.00		645,158.00
Restricted for Debt Service	45,333.00			45,333.00
Unrestricted	111,439.62	44,419.67	11,314.78	167,174.07
Total Net Position	645,461.62	200,888.67	11,314.78	857,665.07
=====				

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

CITY OF STEELE
Steele, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	113,092.36	32,427.81	10,395.67	155,915.84
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	1,347,697.00	161,277.00		1,508,974.00
Machinery and Vehicles		1,000.00		1,000.00
Total Noncurrent Assets	1,347,697.00	162,277.00		1,509,974.00
Total Assets	1,460,789.36	194,704.81	10,395.67	1,665,889.84
LIABILITIES				
Current Liabilities:				
Revenue Bonds Payable	19,100.00			19,100.00
Noncurrent Liabilities:				
Revenue Bonds Payable	811,000.00			811,000.00
Total Liabilities	830,100.00			830,100.00
NET POSITION				
Net Investment in Capital Assets	517,597.00	162,277.00		679,874.00
Restricted for Debt Service	41,649.00			41,649.00
Unrestricted	71,443.36	32,427.81	10,395.67	114,266.84
Total Net Position	630,689.36	194,704.81	10,395.67	835,789.84

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

CITY OF STEELE
Steele, North Dakota

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

For the Year Ended December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	250,219.80			250,219.80
Sewer Collections		25,476.69		25,476.69
Garbage Collections			122,060.90	122,060.90
Garbage Surcharge			2,524.90	2,524.90
Other Collections	3,040.93	50.00	4,235.08	7,326.01
Total Operating Revenues	253,260.73	25,526.69	128,820.88	407,608.30
<u>Operating Expenses:</u>				
Water Department	225,219.46			225,219.46
Sewer Department		56,323.69		56,323.69
Garbage Department			127,901.77	127,901.77
Depreciation	48,008.00	5,808.00		53,816.00
Total Operating Expenses	273,227.46	62,131.69	127,901.77	463,260.92
Operating Income (Loss)	(19,966.73)	(36,605.00)	919.11	(55,652.62)
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	5.02			5.02
Special Assessments	31,352.11	28,288.86		59,640.97
Debt Service - Interest and Service Charges	(26,618.14)			(26,618.14)
Total Non-Operating Revenues (Expenses)	4,738.99	28,288.86		33,027.85
Income (Loss) Before Transfers	(15,227.74)	(8,316.14)	919.11	(22,624.77)
Transfers In	42,084.00	25,000.00		67,084.00
Transfers Out	(12,084.00)	(10,500.00)		(22,584.00)
Change in Net Position	14,772.26	6,183.86	919.11	21,875.23
Net Position - January 1	630,689.36	194,704.81	10,395.67	835,789.84
Net Position - December 31	645,461.62	200,888.67	11,314.78	857,665.07

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

CITY OF STEELE
Steele, North Dakota

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

For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	254,206.66			254,206.66
Sewer Collections		27,572.69		27,572.69
Garbage Collections			115,683.63	115,683.63
Garbage Surcharge			2,567.30	2,567.30
Other Collections	4,565.62		6,071.19	10,636.81
Total Operating Revenues	258,772.28	27,572.69	124,322.12	410,667.09
<u>Operating Expenses:</u>				
Water Department	173,954.75			173,954.75
Sewer Department		4,528.75		4,528.75
Garbage Department			121,780.68	121,780.68
Depreciation	48,008.00	5,808.00		53,816.00
Total Operating Expenses	221,962.75	10,336.75	121,780.68	354,080.18
Operating Income (Loss)	36,809.53	17,235.94	2,541.44	56,586.91
<u>Non-Operating Revenues (Expenses):</u>				
Interest	3.38	203.55		206.93
Kidder County	62,000.00			62,000.00
Debt Service - Interest and Service Charges	(27,151.10)			(27,151.10)
Total Non-Operating Revenues (Expenses)	34,852.28	203.55		35,055.83
Income (Loss) Before Transfers	71,661.81	17,439.49	2,541.44	91,642.74
Transfers In	9,684.00			9,684.00
Transfers Out	(19,684.00)	(5,000.00)		(24,684.00)
Change in Net Position	61,661.81	12,439.49	2,541.44	76,642.74
Net Position - January 1	569,027.55	182,265.32	7,854.23	759,147.10
Net Position - December 31	630,689.36	194,704.81	10,395.67	835,789.84

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

CITY OF STEELE
Steele, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	253,260.73	25,526.69	128,820.88	407,608.30
Payments to suppliers and employees	(225,219.46)	(56,323.69)	(127,901.77)	(409,444.92)
Net cash provided (used) by operating activities	28,041.27	(30,797.00)	919.11	(1,836.62)
<u>Cash flows from noncapital financing activities:</u>				
Special assessments	31,352.11	28,288.86		59,640.97
Transfers in	42,084.00	25,000.00		67,084.00
Transfers out	(12,084.00)	(10,500.00)		(22,584.00)
Net cash provided (used) by noncapital financing activities	61,352.11	42,788.86		104,140.97
<u>Cash flows from capital and related financing activities:</u>				
Principal payments	(19,100.00)			(19,100.00)
Interest and service charges	(26,618.14)			(26,618.14)
Net cash provided (used) by capital and related financing activities	(45,718.14)			(45,718.14)
<u>Cash flows from investing activities:</u>				
Interest income	5.02			5.02
Net increase in cash and cash equivalents	43,680.26	11,991.86	919.11	56,591.23
Cash and cash equivalents, January 1	113,092.36	32,427.81	10,395.67	155,915.84
Cash and cash equivalents, December 31	156,772.62	44,419.67	11,314.78	212,507.07
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(19,966.73)	(36,605.00)	919.11	(55,652.62)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	48,008.00	5,808.00		53,816.00
Net cash provided (used) by operating activities	28,041.27	(30,797.00)	919.11	(1,836.62)
=====				

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

CITY OF STEELE
Steele, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
<u>Cash flows from operating activities:</u>				
Receipts from customers	258,772.28	27,572.69	124,322.12	410,667.09
Payments to suppliers and employees	(173,954.75)	(4,528.75)	(121,780.68)	(300,264.18)
Net cash provided (used) by operating activities	84,817.53	23,043.94	2,541.44	110,402.91
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	9,684.00			9,684.00
Transfers out	(19,684.00)	(5,000.00)		(24,684.00)
Net cash provided (used) by noncapital financing activities	(10,000.00)	(5,000.00)		(15,000.00)
<u>Cash flows from capital and related financing activities:</u>				
Kidder County	62,000.00			62,000.00
Purchase of fixed assets	(73,488.00)			(73,488.00)
Principal payments	(18,500.00)			(18,500.00)
Interest and service charges	(27,151.10)			(27,151.10)
Net cash provided (used) by capital and related financing activities	(57,139.10)			(57,139.10)
<u>Cash flows from investing activities:</u>				
Interest income	3.38	203.55		206.93
Net increase in cash and cash equivalents	17,681.81	18,247.49	2,541.44	38,470.74
Cash and cash equivalents, January 1	95,410.55	14,180.32	7,854.23	117,445.10
Cash and cash equivalents, December 31	113,092.36	32,427.81	10,395.67	155,915.84
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	36,809.53	17,235.94	2,541.44	56,586.91
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	48,008.00	5,808.00		53,816.00
Net cash provided (used) by operating activities	84,817.53	23,043.94	2,541.44	110,402.91
=====				

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

CITY OF STEELE
Steele, North Dakota

Notes to the Financial Statements
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

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

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

The city reports the following major enterprise funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

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

F. Compensated Absences

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

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

G. Long-Term Obligations

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

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

H. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

I. Interfund Transactions

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

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

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

J. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2016 the city's carrying amount of deposits was \$538,576 and the bank balance was \$563,826. Of the bank balance, \$473,155 was covered by Federal Depository Insurance. The remaining balance of \$90,671 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2015 the city's carrying amount of deposits was \$476,782 and the bank balance was \$502,619. Of the bank balance, \$475,739 was covered by Federal Depository Insurance. The remaining balance of \$26,880 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2016 the city held certificates of deposit in the amount of \$16,145, which are all considered deposits.

At December 31, 2015 the city held certificates of deposit in the amount of \$16,058, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 ECONOMIC DEVELOPMENT LOANS RECEIVABLE

Economic development loans receivable consists of amounts loaned from the city sales tax fund to local businesses. The following amounts are outstanding at December 31, 2016:

<u>Sales and Use Tax Fund</u>	
Kidco Farms Processing, Inc.	26,444.18
Melinda Strom	15,714.40
<hr/>	
Total Economic Development	
Loans Receivable	42,158.58
	=====

Note 5 ADVANCE TO KIDDER COUNTY COMMUNITY HEALTH CARE

Advance to Kidder County Community Health Care consists of moneys loaned to the clinic to provide operating funds. Funds will be repaid by the clinic as moneys become available.

Note 6 CAPITAL ASSETS

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

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	40,000			40,000
Capital assets being depreciated:				
Buildings and Infrastructure	1,294,578			1,294,578
Machinery and Vehicles	218,266	56,800		275,066
Total	<u>1,512,844</u>	<u>56,800</u>		<u>1,569,644</u>
Less accumulated depreciation for:				
Buildings and Infrastructure	681,003	46,536		727,539
Machinery and Vehicles	98,403	26,328		124,731
Total	<u>779,406</u>	<u>72,864</u>		<u>852,270</u>
Total capital assets being depreciated, net	<u>733,438</u>	<u>(16,064)</u>		<u>717,374</u>
Governmental Activities Capital Assets, Net	<u>773,438</u>	<u>(16,064)</u>	<u>-0-</u>	<u>757,374</u>

		<u>2015</u>		
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	40,000			40,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	937,220	357,358		1,294,578
Machinery and Vehicles	228,300	34,966	45,000	218,266
Total	<u>1,165,520</u>	<u>392,324</u>	<u>45,000</u>	<u>1,512,844</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	634,467	46,536		681,003
Machinery and Vehicles	106,829	36,574	45,000	98,403
Total	<u>741,296</u>	<u>83,110</u>	<u>45,000</u>	<u>779,406</u>
Total capital assets being depreciated, net	<u>424,224</u>	<u>309,214</u>		<u>733,438</u>
Governmental Activities Capital Assets, Net	<u>464,224</u>	<u>309,214</u>	<u>-0-</u>	<u>773,438</u>

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-Type Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and				
Infrastructure	2,108,124			2,108,124
Machinery and				
Vehicles	5,000			5,000
Total	<u>2,113,124</u>			<u>2,113,124</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and				
Infrastructure	599,150	53,316		652,466
Machinery and				
Vehicles	4,000	500		4,500
Total	<u>603,150</u>	<u>53,816</u>		<u>656,966</u>
Business-Type Activities				
Capital Assets, Net	<u>1,509,974</u>	<u>(53,816)</u>	<u>-0-</u>	<u>1,456,158</u>
	=====	=====	=====	=====

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-Type Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and				
Infrastructure	2,034,636	73,488		2,108,124
Machinery and				
Vehicles	5,000			5,000
Total	<u>2,039,636</u>	<u>73,488</u>		<u>2,113,124</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and				
Infrastructure	545,834	53,316		599,150
Machinery and				
Vehicles	3,500	500		4,000
Total	<u>549,334</u>	<u>53,816</u>		<u>603,150</u>
Business-Type Activities				
Capital Assets, Net	<u>1,490,302</u>	<u>19,672</u>	<u>-0-</u>	<u>1,509,974</u>
	=====	=====	=====	=====

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

	<u>2016</u>	<u>2015</u>
<u>Governmental Activities:</u>		
General Government	2,386	2,386
Public Safety	4,453	5,379
Streets and Public Works	64,187	73,507
Urban and Econ. Develop.	1,838	1,838
Total	<u>72,864</u>	<u>83,110</u>
	=====	=====
<u>Business-Type Activities:</u>		
Combined Water	48,008	48,008
Sewer Operating	5,808	5,808
Total	<u>53,816</u>	<u>53,816</u>
	=====	=====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2016 and 2015, the following changes occurred in liabilities reported in the long-term liabilities:

	<u>2016</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bank Loan Payable	33,778	50,000	10,897	72,881	27,434
Revenue Bonds Payable	355,000		30,000	325,000	35,000
Total	<u>388,778</u>	<u>50,000</u>	<u>40,897</u>	<u>397,881</u>	<u>62,434</u>
	=====	=====	=====	=====	=====
	<u>2015</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Bank Loan Payable	44,333		10,555	33,778	10,897
Revenue Bonds Payable		375,000	20,000	355,000	30,000
Total	<u>44,333</u>	<u>375,000</u>	<u>30,555</u>	<u>388,778</u>	<u>40,897</u>
	=====	=====	=====	=====	=====

Business-Type Activities2016

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	830,100	-0-	19,100	811,000	19,600
	=====	=====	=====	=====	=====

2015

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	848,600	-0-	18,500	830,100	19,100
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2016 consists of the following:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2016, is as follows:

Bank Loans Payable. The city has entered into loan agreements for the purchase of a 2004 Elgin street sweeper and 2014 Durapatcher.

\$56,050 Bank Loan with Choice Financial Group, due in annual installments of \$11,995.00 through October 1, 2018; payments include interest of 3.25%.	22,880.79
--	-----------

\$50,000 Bank Loan with Northland Financial Bank, due in annual installments of \$17,829.94 through February 19, 2019; payments include interest of 3.26%.	50,000.00
--	-----------

Total Bank Loans Payable	72,880.79
	=====

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

Year Ending December 31	Principal	Interest
2017	27,433.92	2,391.02
2018	28,356.26	1,468.68
2019	17,090.61	739.33
Total	72,880.79	4,599.03
	=====	=====

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

\$375,000 Sales Tax Revenue Bonds, Series 2015 due in annual installments of \$35,000 to \$40,000 through November 1, 2025; interest is at 1.75% to 2.5%.	325,000.00
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	35,000.00	7,075.00
2018	35,000.00	6,462.50
2019	35,000.00	5,850.00
2020	35,000.00	5,237.50
2021	35,000.00	4,625.00
2022-2025	150,000.00	9,625.00
Total	325,000.00	38,875.00
	=====	=====

Business-Type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

\$875,000 Water Improvement Revenue Bonds of 2003,
Series A due in annual installments of \$17,400 to
\$33,700 through July 11, 2043; interest is at 3%. 702,100.00

\$60,000 Water Improvement Revenue Bonds of 2003,
Series B due in annual installments of \$1,000 to
\$3,200 through July 11, 2043; interest is
at 4.25%. 50,500.00

\$70,000 Water Improvement Revenue Bonds of 2003,
Series C due in annual installments of \$1,200 to
\$3,300 through July 11, 2043; interest is
at 4.25%. 58,400.00

Total Revenue Bonds Payable	811,000.00
	=====

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	19,600.00	25,691.00
2018	20,300.00	25,077.00
2019	20,900.00	24,438.00
2020	21,600.00	23,778.00
2021	22,300.00	23,098.00
2022-2026	122,300.00	104,464.00
2027-2031	142,700.00	83,903.00
2032-2036	166,500.00	59,820.00
2037-2041	194,000.00	31,689.00
2042-2043	80,800.00	3,767.00
Total	811,000.00	405,725.00
	=====	=====

Note 8 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2016</u>		
Street	19,500.00	
Water Operating	30,000.00	
General Fund		39,000.00
Sales and Use Tax		10,500.00
Sewer	25,000.00	
Sales and Use Tax		25,000.00

To subsidize expenditures.

Water Filter	8,400.00	
Water Reserve	3,684.00	
Water Operating		12,084.00

To set-aside funds for various reserves.

December 31, 2015

General Fund	39,200.00	
Sales and Use Tax		39,200.00
Street	15,000.00	
Water Operating		10,000.00
Sewer		5,000.00

To subsidize expenditures.

Water Filter	6,000.00	
Water Reserve	3,684.00	
Water Operating		9,684.00

To set-aside funds for various reserves.

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$276,469 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$394,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 10 PENSION PLAN

The city provides benefits for full-time employees, with the requirements of one year employment with the city and a minimum salary of \$5,000.00, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 3% of the employee's gross salary for the year. During the year ending December 31, 2016 and 2015, the city contributed \$3,811.41 and \$4,593.92, respectively.

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	126,977.00	126,977.00	116,758.74	(10,218.26)
Licenses, Permits and Fees	2,810.00	2,810.00	1,568.50	(1,241.50)
Intergovernmental	85,200.00	85,200.00	71,444.82	(13,755.18)
Fines and Forfeitures	1,000.00	1,000.00	11,559.35	10,559.35
Miscellaneous	18,990.00	18,990.00	24,457.56	5,467.56
Total Revenues	234,977.00	234,977.00	225,788.97	(9,188.03)
<u>Expenditures:</u>				
Current:				
General Government	123,277.10	123,277.10	89,203.23	34,073.87
Public Safety	81,000.00	81,000.00	66,678.12	14,321.88
Streets and Public Works	29,500.00	29,500.00	31,361.58	(1,861.58)
Health and Welfare	3,200.00	3,200.00	3,481.73	(281.73)
Total Expenditures	236,977.10	236,977.10	190,724.66	46,252.44
Excess (Deficiency) of Revenues Over Expenditures	(2,000.10)	(2,000.10)	35,064.31	37,064.41
<u>Other Financing (Uses):</u>				
Transfers Out			(39,000.00)	(39,000.00)
Net Change in Fund Balances	(2,000.10)	(2,000.10)	(3,935.69)	(1,935.59)
Fund Balance - January 1	42,755.23	42,755.23	42,755.23	
Fund Balance - December 31	40,755.13	40,755.13	38,819.54	(1,935.59)

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	96,140.00	96,140.00	53,173.61	(42,966.39)
Licenses, Permits and Fees	2,810.00	2,810.00	4,605.00	1,795.00
Intergovernmental	92,200.00	92,200.00	90,640.76	(1,559.24)
Fines and Forfeitures	1,000.00	1,000.00	1,150.00	150.00
Miscellaneous	19,550.00	19,550.00	60,852.94	41,302.94
Total Revenues	211,700.00	211,700.00	210,422.31	(1,277.69)
<u>Expenditures:</u>				
Current:				
General Government	108,000.00	108,000.00	99,585.66	8,414.34
Public Safety	81,000.00	81,000.00	88,642.05	(7,642.05)
Streets and Public Works	19,500.00	19,500.00	27,890.18	(8,390.18)
Health and Welfare	3,200.00	3,200.00	2,661.20	538.80
Capital Outlay			26,716.00	(26,716.00)
Total Expenditures	211,700.00	211,700.00	245,495.09	(33,795.09)
Excess (Deficiency) of Revenues Over Expenditures			(35,072.78)	(35,072.78)
<u>Other Financing Sources:</u>				
Transfers In			39,200.00	39,200.00
Net Change in Fund Balances			4,127.22	4,127.22
Fund Balance - January 1	38,628.01	38,628.01	38,628.01	
Fund Balance - December 31	38,628.01	38,628.01	42,755.23	4,127.22

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	5,000.00	5,000.00	66,604.51	61,604.51
Special Assessments			38,785.00	38,785.00
Intergovernmental			81,884.59	81,884.59
Charges for Services			6,936.01	6,936.01
Total Revenues	5,000.00	5,000.00	194,210.11	189,210.11
Expenditures:				
Current:				
Streets and Public Works	160,000.00	160,000.00	122,343.44	37,656.56
Capital Outlay			56,800.00	(56,800.00)
Debt Service:				
Principal			40,897.00	(40,897.00)
Interest			9,883.00	(9,883.00)
Total Expenditures	160,000.00	160,000.00	229,923.44	(69,923.44)
Excess (Deficiency) of Revenues Over Expenditures	(155,000.00)	(155,000.00)	(35,713.33)	119,286.67
Other Financing Sources:				
Transfers In			19,500.00	19,500.00
Proceeds from Bank Loan			50,000.00	50,000.00
Total Other Financing Sources			69,500.00	69,500.00
Net Change in Fund Balances	(155,000.00)	(155,000.00)	33,786.67	188,786.67
Fund Balance - January 1	10,978.98	10,978.98	10,978.98	
Fund Balance - December 31	(144,021.02)	(144,021.02)	44,765.65	188,786.67

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	5,000.00	5,000.00	7,138.16	2,138.16
Special Assessments			25,756.18	25,756.18
Intergovernmental			91,522.69	91,522.69
Charges for Services			2,648.99	2,648.99
Total Revenues	5,000.00	5,000.00	127,066.02	122,066.02
<u>Expenditures:</u>				
Current:				
Streets and Public Works	200,000.00	200,000.00	107,517.05	92,482.95
Other			4,585.92	(4,585.92)
Capital Outlay			365,608.00	(365,608.00)
Debt Service:				
Principal			30,555.00	(30,555.00)
Interest			7,196.18	(7,196.18)
Total Expenditures	200,000.00	200,000.00	515,462.15	(315,462.15)
Excess (Deficiency) of Revenues Over Expenditures	(195,000.00)	(195,000.00)	(388,396.13)	(193,396.13)
<u>Other Financing Sources (Uses):</u>				
Transfers In			15,000.00	15,000.00
Revenue Bonds Issued			375,000.00	375,000.00
Bond Issue Costs			(5,625.00)	(5,625.00)
Total Other Financing Sources			384,375.00	384,375.00
Net Change in Fund Balances	(195,000.00)	(195,000.00)	(4,021.13)	190,978.87
Fund Balance - January 1	15,000.11	15,000.11	15,000.11	
Fund Balance - December 31	(179,999.89)	(179,999.89)	10,978.98	190,978.87

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales and Use Tax Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes			182,258.64	182,258.64
Miscellaneous			7,297.22	7,297.22
Total Revenues			189,555.86	189,555.86
<u>Expenditures:</u>				
Current:				
Health and Welfare	185,000.00	185,000.00	146,505.74	38,494.26
Urban and Economic Development			32,525.35	(32,525.35)
Culture and Recreation			15,000.00	(15,000.00)
Total Expenditures	185,000.00	185,000.00	194,031.09	(9,031.09)
Excess (Deficiency) of Revenues Over Expenditures	(185,000.00)	(185,000.00)	(4,475.23)	180,524.77
<u>Other Financing (Uses):</u>				
Transfers Out			(25,000.00)	(25,000.00)
Net Change in Fund Balances	(185,000.00)	(185,000.00)	(29,475.23)	155,524.77
Fund Balance - January 1	294,495.29	294,495.29	294,495.29	
Fund Balance - December 31	109,495.29	109,495.29	265,020.06	155,524.77

CITY OF STEELE
Steele, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Sales and Use Tax Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes			244,131.02	244,131.02
Miscellaneous			40,606.73	40,606.73
Total Revenues			284,737.75	284,737.75
Expenditures:				
Current:				
Health and Welfare	144,000.00	144,000.00	152,065.52	(8,065.52)
Urban and Economic Development			28,517.40	(28,517.40)
Culture and Recreation			42,000.00	(42,000.00)
Total Expenditures	144,000.00	144,000.00	222,582.92	(78,582.92)
Excess (Deficiency) of Revenues Over Expenditures	(144,000.00)	(144,000.00)	62,154.83	206,154.83
Other Financing (Uses):				
Transfers Out			(39,200.00)	(39,200.00)
Net Change in Fund Balances	(144,000.00)	(144,000.00)	22,954.83	166,954.83
Fund Balance - January 1	271,540.46	271,540.46	271,540.46	
Fund Balance - December 31	127,540.46	127,540.46	294,495.29	166,954.83

CITY OF STEELE
Steele, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016 and 2015

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2016 and 2015.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
General Fund		33,795.09
<u>Special Revenue Funds</u>		
Street	69,923.44	315,462.15
Sales and Use Tax	9,031.09	78,582.92
* Social Security	9,725.74	15,699.94

* A budget was not prepared for this fund for the years ending December 31, 2016 and 2015.

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

CITY OF STEELE
Steele, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Governmental Funds:						
<u>General Fund</u>						
Operating	9,631.16	225,788.97		39,000.00	190,724.66	5,695.47
Horizon	602.28					602.28
Safe Route	32,521.79					32,521.79
Total General Fund	42,755.23	225,788.97		39,000.00	190,724.66	38,819.54
Street	10,978.98	244,210.11	19,500.00		229,923.44	44,765.65
Sales and Use Tax	224,563.90	196,828.67		25,000.00	194,031.09	202,361.48
Total Major Governmental Funds	278,298.11	666,827.75	19,500.00	64,000.00	614,679.19	285,946.67
Non-Major Governmental Funds:						
Social Security	9,697.83	27.91			9,725.74	
Visitor Promotion	29,749.43	9,133.61			1,942.66	36,940.38
150th Celebration	3,120.36	1.56				3,121.92
Total Non-Major Governmental Funds	42,567.62	9,163.08			11,668.40	40,062.30
Total Governmental Funds	320,865.73	675,990.83	19,500.00	64,000.00	626,347.59	326,008.97
Major Enterprise Funds:						
<u>Water Fund</u>						
Operating	60,043.36	284,617.86	30,000.00	12,084.00	270,937.60	91,639.62
Water Filter	11,400.00		8,400.00			19,800.00
Water Reserve	41,649.00		3,684.00			45,333.00
Sewer	32,427.81	53,815.55	25,000.00	10,500.00	56,323.69	44,419.67
Garbage	10,395.67	128,820.88			127,901.77	11,314.78
Total Major Enterprise Funds	155,915.84	467,254.29	67,084.00	22,584.00	455,163.06	212,507.07
Total All Funds	476,781.57	1,143,245.12	86,584.00	86,584.00	1,081,510.65	538,516.04

CITY OF STEELE
Steele, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
Major Governmental Funds:						
<u>General Fund</u>						
Operating	5,503.94	210,422.31	39,200.00		245,495.09	9,631.16
Horizon	602.28					602.28
Safe Route	32,521.79					32,521.79
Total General Fund	38,628.01	210,422.31	39,200.00		245,495.09	42,755.23
Street	15,000.11	496,441.02	15,000.00		515,462.15	10,978.98
Sales and Use Tax	177,826.06	308,520.76		39,200.00	222,582.92	224,563.90
Total Major Governmental Funds	231,454.18	1,015,384.09	54,200.00	39,200.00	983,540.16	278,298.11
Non-Major Governmental Funds:						
Social Security	6,360.48	19,037.29			15,699.94	9,697.83
Visitor Promotion	22,484.04	8,050.45			785.06	29,749.43
150th Celebration	3,119.31	1.05				3,120.36
Total Non-Major Governmental Funds	31,963.83	27,088.79			16,485.00	42,567.62
Total Governmental Funds	263,418.01	1,042,472.88	54,200.00	39,200.00	1,000,025.16	320,865.73
Major Enterprise Funds:						
<u>Water Fund</u>						
Operating	52,045.55	320,775.66		19,684.00	293,093.85	60,043.36
Water Filter	5,400.00		6,000.00			11,400.00
Water Reserve	37,965.00		3,684.00			41,649.00
Sewer	14,180.32	27,776.24		5,000.00	4,528.75	32,427.81
Garbage	7,854.23	124,322.12			121,780.68	10,395.67
Total Major Enterprise Funds	117,445.10	472,874.02	9,684.00	24,684.00	419,403.28	155,915.84
Total All Funds	380,863.11	1,515,346.90	63,884.00	63,884.00	1,419,428.44	476,781.57

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Steele
Steele, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steele, Steele, North Dakota, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated September 8, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Rath and Mehre, P.C.

Bismarck, North Dakota

September 8, 2017

CITY OF STEELE
Steele, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

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

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 and 2015 are prepared by the city's external auditors.

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

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.