



2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

The City of Fargo, North Dakota
for the fiscal year ended December 31, 2018





CITY OF FARGO NORTH DAKOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

**PREPARED BY:
THE FINANCE DEPARTMENT
KENT COSTIN, DIRECTOR OF FINANCE**

**CITY OF FARGO, NORTH DAKOTA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

INTRODUCTORY SECTION

Table of Contents	I
Finance Director's Letter of Transmittal	III
Listing of City Officials	IX
Organizational Chart	X
Certificate of Achievement of Excellence in Financial Reporting	XI

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	18
Statement of Net Position – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Position – Fiduciary Funds	24
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	25
Notes to the Financial Statements	26
Required Supplementary Information	89
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	96
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	98
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Special Revenue Funds	100
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Debt Service Fund	108
Combining Statement of Net Position – Nonmajor Proprietary Funds	110
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Proprietary Funds	111
Combining Statement of Cash Flows – Nonmajor Proprietary Funds	112

TABLE OF CONTENTS, Continued

Combining Statement of Net Position – Agency Funds	114
Combining Statement of Changes in Assets and Liabilities – Agency Funds	115
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedule by Source	117
Schedule by Function and Activity	118
Schedule of Changes by Function and Activity	119

STATISTICAL SECTION

Net Position by Component	121
Change in Net Position	122
Fund Balance of Governmental Funds	124
Changes in Fund Balance of Governmental Funds	125
Program Revenues by Function/Program	126
Tax Revenues by Source, Governmental Funds	127
Sales Tax Receipts – Cash Basis	128
Sales Tax Rates In Effect	129
Taxable Sales and Purchases by State NAICS Category	130
Market, Assessed, and Taxable Value of Taxable Property	131
Property Tax Rates – Direct and Overlapping Governments	132
Principal Property Taxpayers	133
Property Tax Levies and Collections	134
Summary of Building Permits Issued	135
Water Utility Billed Consumption	136
Water Utility – Major Customers	137
Utility Rate Structure	138
Lodging Tax Revenue	139
Ratios of Outstanding Debt by Type	140
Ratios of General Bonded Debt Outstanding	141
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	142
Legal Debt Margin	143
Direct and Overlapping Debt	144
Summary of Direct Debt and Debt Ratios	145
Pledged Revenue Coverage – Governmental Activities	146
Pledged Revenue Coverage – Business Type Activities	150
Demographic and Economic Statistics	154
Retail Sales and Estimated Buying Income	155
Principal Employers	156
Number of City Government Employees by Function/Program	157
Operating Indicators by Function/Program	158
Capital Asset Statistics by Function/Program	159
Schedule of Insurance in Force	160



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June 18, 2019

To the Honorable Mayor, Members of the City Commission, and the Citizens of the City of Fargo, North Dakota.

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Fargo for the fiscal year ending December 31, 2018. This report satisfies audit and financial reporting requirements pursuant to North Dakota Century Code 54-10-14 and the Uniform Guidance.

This report is prepared by the City's Finance Department in accordance with generally accepted accounting principles. The Finance Department is responsible for the accuracy, clarity, and presentation of the financial statements. We believe this report fairly and accurately presents the financial position of the City and the results of operation of the various funds for the period covered, and that all disclosures necessary for such presentation have been included.

Eide Bailly LLP has issued an unmodified "clean" opinion on the City of Fargo's financial statements for the year ended December 31, 2018. The independent auditor's report is located at the front of the financial section of this report. There were no audit findings or management comments.

It is management's responsibility to develop a system of internal controls to safeguard the assets of the City. In developing the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. Because the cost of internal controls should not exceed their benefits, the City's internal controls are designed to provide reasonable basis rather than absolute assurance that the financial statements will be free from material misstatement. We assert that this financial report is complete and reliable in all material respects.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. Management's Discussion and Analysis is included in this report on page 4. This letter of transmittal has been designed to compliment the MD&A and should be read in conjunction with it. The MD&A contains a more detailed analysis of changes in financial condition.

CITY OF FARGO PROFILE

The City of Fargo was incorporated in 1875 and is located in the eastern border of North Dakota at the intersection of Interstate Highways I-29 and I-94. This regional economic center continues to expand with a trend of consistent growth over the past several years. The current population is estimated at 125,031, an 18% growth since 2010. Health care, education and retail have a strong presence that expands the local economy into a broader regional economic center. The City is empowered to levy taxes on real property located within its boundaries and continues to expand its size with many annexations being completed in the past few years. This trend is predicted for the next several years as our population and economy expands. A recent demographic study expects Fargo's population to grow to 171,540 by 2040.

The City of Fargo operates under a Home Rule Charter, established in 1986, with a Mayor-Commission form of government. Policy making and legislative authority is vested in a five member Commission. The City Commission is responsible for policy and ordinance adoption, approving budgets, committees, and

serving needs of the community. The Mayor and City Commissioners are elected at large and serve four year terms. Tim Mahoney is the Mayor. He has served as a City Commissioner since 2005, as interim Mayor in December of 2014, and Mayor since that time. The next municipal election will be June of 2020 at which time the citizens will elect two new City Commissioners.

All Department Heads serve on the Mayor's Cabinet which is used as a forum to communicate City and community issues. The City Administrator, Bruce Grubb is the liaison to the City Commission and is responsible for overseeing the day to day operations of the City and its eighteen Departments. Michael Redlinger is the Assistant City Administrator.

The City of Fargo provides a full range of governmental services including public safety, construction and maintenance of infrastructure, public utilities including water, wastewater, solid waste and urban forestry, health and social services, public transportation, recreation and culture, and general support services necessary to serve the citizens of Fargo.

The City is required to adopt a preliminary budget by July 31st and a final budget by October 7 of each year. All Departments submit their requests to the Mayor during the budget development process that begins each May. Currently, the Mayor utilizes a budget team approach to discuss budget strategy with the City Administrator and the Director of Finance; however, the Mayor is responsible for the final decisions relating to the preliminary budget presentation. The City Commission is responsible for adoption of the final budget. Budget control is maintained at the fund, function (e.g. Public Safety) and Department (e.g., Police). Department Heads may make transfers of appropriations within a Department. Supplemental budget appropriations require approval by the City Commission.

STATE OF NORTH DAKOTA AND ECONOMIC CONDITIONS IN FARGO

Statewide Financial Conditions Improving

Statewide economic conditions have improved in North Dakota resulting primarily from the impact of rising oil prices. North Dakota has become a major player in US oil production.

The Tax Commissioner for the State of North Dakota reported annual increases in statewide taxable sales and purchases for 2018 of 12% as compared to 7.19% in 2017. This is a significant improvement since reporting a decline of 24% from 2016 to 2015 tax collection levels.

Changes in intergovernmental revenues are discussed in more detail in the management discussion and analysis section of this report. Major State intergovernmental revenues in our General Fund increased by 8.7% this year which were in line with budget projections.

The median Fargo per capita income continues to rise and is reflective of our strong local economy. Per capita incomes have increased to \$50,725 in 2017 as compared to \$47,023 in 2013 representing a 7.8% increase in income levels over the past five years. Our labor force has increased to 68,195 in 2018 as compared to 65,038 five years ago which represents an 4.8% increase. Fargo's unemployment rate of 2.2% is lower than the State and national averages.

Sustained Increase in Building Permit History

Construction activity in Fargo continues to remain strong as evidenced by a building permit total of \$515 million in 2018 and \$474 million in 2017. Residential permits values decreased slightly in 2018, however, commercial construction increased by 12%. Demand for housing remains strong in our community in light of the strength of our local economy. Building permit activity has accelerated for the past five years and

has stabilized around \$500 million for the past four years. Building permits peaked in 2014 with over \$1 billion construction activity.

Sales Taxes Funding Key Infrastructure / Voter Extension to 2084 for Flood Control

Fargo is utilizing sales tax revenues as a primary funding source for key infrastructure projects. All of our sales tax resources (2% tax rate) are dedicated to various types of infrastructure. The most significant expenditures are being made in updating municipal utilities to accommodate present and future growth, flood levees to protect us from Red River flood events, and improving our highway systems throughout our community. Existing sales tax authorizations expire in 2028, and 2084. During 2016, voters approved a long-term extension of sales tax to 2084 for the Fargo Moorhead flood control diversion project.

A more comprehensive review of these statistics is contained in the statistical section of this report.

State and Local Sales Tax Revenue Trends

Statewide sales tax revenue increased by 12% during 2018 due to increased economic activity related to oil production in western North Dakota. State economic data is improving following a sharp decline in 2015 and 2016.

Fargo's locally imposed sales tax revenue totaled \$48.2 million this year as compared to revenue totals of \$47.7 in 2017, a 1% increase. This reverses a negative trend experienced in 2016 and 2017. Retail sales in Cass County increased from \$4.4 million in 2017 to \$5.4 million in 2018, an indicator of an improving economy.

MAJOR INITIATIVES FOR THE YEAR

Fargo Moorhead Diversion Channel Project Status

The construction of a major flood control structure continues to be one of our highest priorities for our community. A history of this project including past and present status is summarized below.

The Army Corp of Engineers (USACE) has been studying various alternative flood protection projects for the Fargo-Moorhead area for several years. USACE has recommended a large flood diversion channel (to the west of the cities of Fargo and West Fargo) combined with a southern embankment, temporary water storage area and water control structures to limit the flow of water through Fargo Moorhead that will redirect and lower record river flood levels significantly. The estimated current project cost is anticipated to exceed \$2.4 billion. These costs will be funded by a combination of various Federal, State and local stakeholders.

In October of 2012 a record of decision was approved by the Chief of the Army Corp of Engineers. This critical step recognized the feasibility, final review, and concurrence to include this project on the Federal Government's approved projects listing.

This project was included in the 2013 Water Resources Development Act Bill and has been approved by the U.S. Senate and the House of Representatives. The construction project will take about eight to ten years to construct subject to funds being appropriated in a timely manner.

Work continued in 2015 on securing Federal and State funding for this project. Local officials and our congressional delegation from North Dakota and Minnesota worked together to help formulate plans for a public private partnership pilot project (PPP) as a way to provide long term funding of this project. In February of 2015 the Army Corp of Engineers named this project as federal P3 demonstration project.

February, 2016 the Army Corp of Engineers approved this project as a federal “new start” project and provided budgetary resources to begin this project. The Diversion Authority along with the City of Fargo and the City of Moorhead executed a final project participation agreement with the Army Corp of Engineers in July of 2016 that obligates Federal funding.

A request for proposals and related vendor selection one on one meetings will continue into 2018 with a contractor selection planned by early 2019 for construction of the diversion channels and associated infrastructure.

In November 2016, voters approved a long-term extension of certain sales tax authorizations for City of Fargo as well as Cass County until 2084. These should provide a sustainable long-term revenue stream that will allow us to finance this project.

During the State of North Dakota’s Legislative session for the 2020-2021 biennium, \$66.5 million was appropriated and the legislative intent for funding through the 2029-2031 biennium was increased to \$750 million.

USACE construction on the southern embankment began in April 2017, but these construction efforts have been placed on hold due to a federal court’s temporary injunction. In the fall of 2017, federal judge Tunheim issued a temporary injunction halting USACE construction efforts citing the need for USACE to obtain a permit from Minnesota DNR in order to complete construction of the southern embankment. Following Judge Tunheim’s decision, the Governors of Minnesota and North Dakota personally formed and participated in a task force to recommend changes to the project that would result in a permissible project under Minnesota DNR’s rules and regulations. The Governor’s task force completed its work in December of 2017 and published its recommendations in January of 2018. The Diversion Authority then made revisions to the project based upon the Governor’s task force recommendations and subsequently submitted a new permit application for the Project to Minnesota DNR on March 16, 2018.

The Minnesota Department of Natural Resources granted a permit for the FM Diversion “Plan B” project on December 27, 2018.

On April 8, 2019, Judge Tunheim modified the injunction to allow all requested construction of the Diversion project to proceed.

Significant resources will be expended in 2019 and 2020 to acquire land in the flood channel footprint. This will allow us to move forward with a P3 project contractor bid in 2020.

Our success in moving this project along is a result of our strong project partnerships with the FM Diversion Authority, the Army Corp of Engineers and Jacobs Engineering. Funding partners including the State of North Dakota, State of Minnesota, Army Corp of Engineers, City of Fargo and Cass County. Governmental leaders from the Federal, State and local levels have expended significant effort in a collaborative manner to continue to advance this project.

Municipal Building Projects

The construction of a new City Hall was completed in September 2018. This new facility provides significantly more functional space for municipal service and contains a robust state of the art City Commission chambers with HD video broadcasting capabilities. This greatly improves our transparency and interaction with the public as meetings are broadcasted and posted to our social media site.

The Fargo Police Department moved its field operations to a building adjacent to the Public Works facility on 7th Ave North in 2017. During 2018, remodeling continued to accommodate relocation of the entire Police Department from its current downtown location. Department officials anticipate moving in 2019.

The expansion of our water treatment plant is in its final stage of completion. The project incorporates advanced water treatment technologies due to changing water quality conditions on the Sheyenne River as a result of discharges from Devils Lake. In addition advanced water treatment technologies, the project will also increase the City's overall treatment capacity from 30 million gallons per day (MGD) to 45 MGD. This was important due to the fact that Fargo became a regional water supplier to the cities of West Fargo and Horace. This project spanned four construction seasons and is a major expansion that will serve our community needs well into the future.

An expansion of our wastewater treatment facility was initiated in 2018. This is a major expansion of our current facilities allowing an increase in our treatment capacity from 26 mgd to 50 mgd per day. We will become a regional wastewater service provider to West Fargo and Horace this summer. This expansion is expected to be completed in 2022.

Significant downtown redevelopment opportunity exists for several locations in the Downtown area due to recent flood control buyouts, and moving out of former facilities for Fargo Cass Public Health and the Police Department. The city will be calling for development proposals as these locations become available in 2019.

Strategic Planning and Long Term Capital Improvement Plans

Strategic planning efforts are ongoing for various City functions and the development of long term capital improvement plans have been formally adopted for municipal utility infrastructure projects over a twenty year planning horizon, flood control projects and Departmental capital needs for a five year timeframe. Major infrastructure projects are funded with a variety of sources, however, the major resources available are from sales tax and special assessment revenues.

A strategic plan for the growth and redevelopment of our core Downtown area was completed in 2017. A large civic plaza adjacent to the new city hall is in the planning and design phase. Future city goals include completion of the plaza project, studying the feasibility of a performing arts center, and renovation and expansion of the Fargodome. All of these projects are designed to improve the quality of life for our citizenry.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fargo for its comprehensive annual financial report for the fiscal year ended December 31, 2017. This will be the twentieth consecutive award received since submission to this voluntary quality review program. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedicated services of our entire staff. The staff members who were responsible for the achievement of this goal include:

Jenica Flanagan, Accounting Manager
Jamie Bullock, Grant Accountant
Jessica Houim, Accountant
Megan Zahradka, Financial Analyst
Sheree Calkins, Accounting Supervisor

The Finance team reduced CAFR production time by about one month by using more efficient processes and good project planning.

Finally, I would like to express my appreciation to the members of the City Commission, the Mayor, City Administrator, Cabinet members and City staff for operating the City in a professional and progressive manner.

Respectfully submitted,

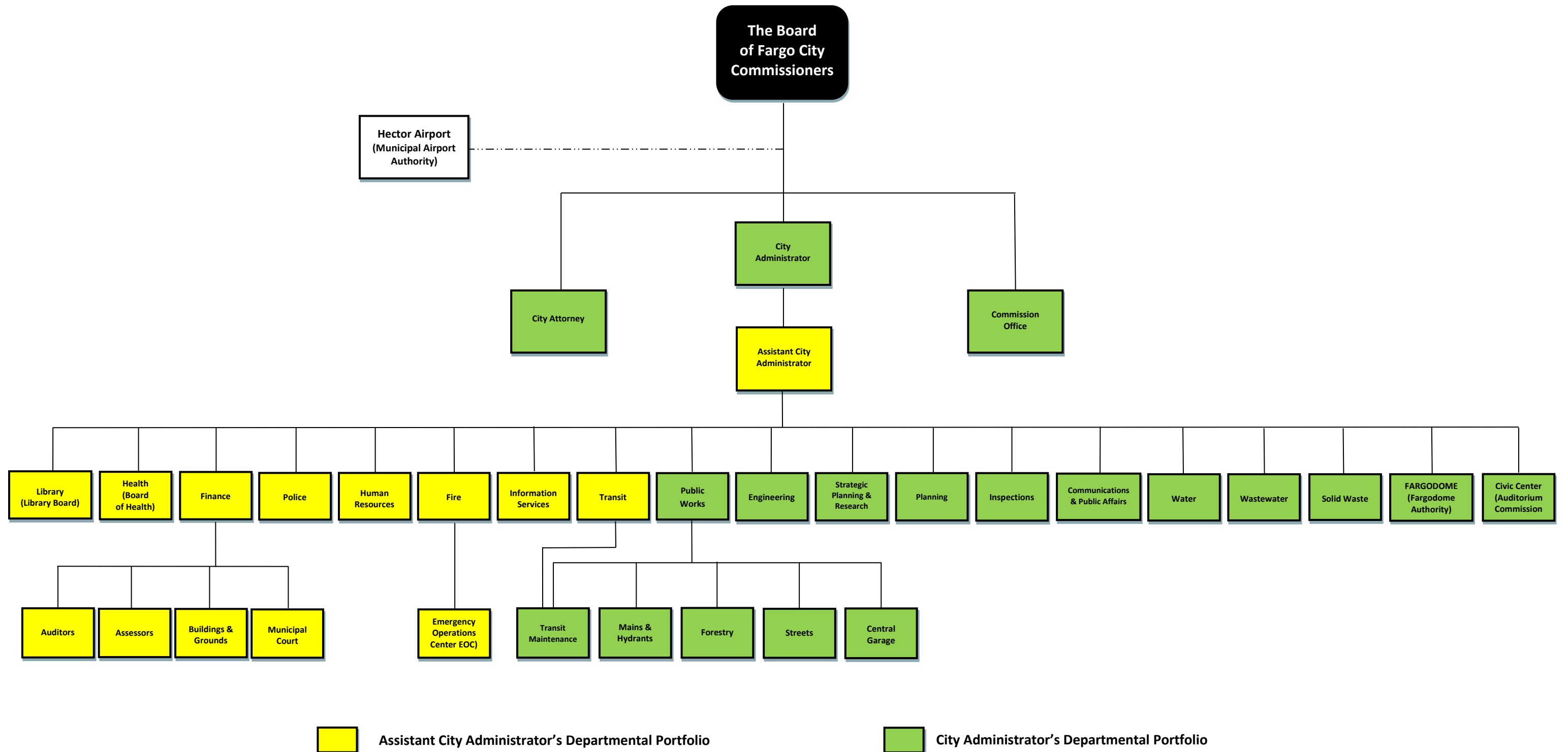
A handwritten signature in cursive script that reads "Kent Costin".

Kent A. Costin
Director of Finance

**CITY OF FARGO, NORTH DAKOTA
LISTING OF CITY OFFICIALS
AS OF DECEMBER 31, 2018**

NAME	OFFICE	TERM EXPIRES
Dr. Tim Mahoney	Mayor	June 2022
Dave Piepkorn	Commissioner	June 2022
Tony Gehrig	Commissioner	June 2022
Tony Grindberg	Commissioner	June 2020
John Strand	Commissioner	June 2020
Bruce Grubb	City Administrator	
Michael Redlinger	Assistant City Administrator	
Kent Costin	Finance Director	
Steven Sprague	City Auditor	
Kember Anderson	City Commission Executive Assistant	

The City of Fargo's Organizational Chart





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fargo
North Dakota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morrell

Executive Director/CEO