



**2020** Comprehensive  
Annual  
Financial  
Report

The City of Fargo, ND  
for the fiscal year ended  
December 31, 2020



# **CITY OF FARGO NORTH DAKOTA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2020**

**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, 2020**

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FINANCE OFFICE  
PO Box 2083  
225 4th Street North  
Fargo, ND 58102  
Phone: 701.241.1333 | Fax: 701.476.4188  
[www.FargoND.gov](http://www.FargoND.gov)

**June 30, 2021**

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 for the City of Fargo for the fiscal year ending December 31, 2020. 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, 2020. 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 complement 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 estimate of 124,999 represents a 16.7% growth since 2011. 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 completed in the past few years. A recent demographic study expects Fargo's population trend to continue to grow for the next several years 171,000 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. A municipal election will be held in June of 2022. Electors will vote on the Mayor and two Commissioners.

All Department Heads serve on the Mayor's Cabinet that 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 August 10 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, Assistant 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.

### **COVID-19 PANDEMIC AND CARES ACT FUNDING**

People across this nation experienced significant changes in their daily lives and employment due to the COVID-19 pandemic. The City of Fargo, along with all other governmental units were required to remain agile making management decisions as conditions changed over this past year. While much has happened over this year we are pleased to report a "back to normal" approach for our municipal operations effective June 2, 2021.

There were no employees terminated or furloughed due to the pandemic, however, some operations were temporarily closed. Many Departments initiated remote working options and continuity of operation plans were put into action. The business of government continued in spite of the enormous challenges from the pandemic conditions.

The City Commission adopted an original General Fund budget for 2020 that increased by 5.0%. This action was based upon an assessment of our Statewide and local economic conditions prior to the pandemic. Management initiated several cost saving measures in the first quarter of the year including a ban on travel, a temporary hiring freeze, delaying capital expenditures, waiving penalties on delinquent utility accounts and deferring of certain charge for services. Significant CARES grants were received during the year due to the COVID-19 pandemic, the largest was a State of North Dakota pass-through grant for public safety costs in the amount of \$15.9 million. Major Federal grant funding was received for our Municipal Airport and City bus operations. These grants will help us stabilize our governmental services in the future as the financial and social impacts of the pandemic continues. Grant awards overall across all our governmental and proprietary functions totaled \$62 million.

We are grateful for a community that offers tremendous health care facilities and dedicated workers that continue to provide compassionate care for those impacted. Fargo-Cass Public Health did a remarkable job of managing this crisis in coordination with many other entities including the State of North Dakota, Health care facilities and providers, Non-Profit organizations and other City Departments.

Taxpayers continued to pay their property taxes and special assessments as budgeted. We did not experience shortfalls in these major revenue categories.

## **AMERICAN RESCUE PLAN IMPACTS AND FUNDING**

The City of Fargo, as a metropolitan city will receive a direct allocation of American Rescue Plan (ARP) grant funding from the US Treasury in 2021 and 2022 to offset community impacts resulting from the COVID-19 pandemic. We have been awarded \$20.2 million in funding that will be release in the next two fiscal years 2021 and 2022. Management will propose a multi-year allocation strategy in the 2022 budget development process.

## **STATE OF NORTH DAKOTA AND ECONOMIC CONDITIONS IN FARGO**

### **Statewide Financial Conditions**

Statewide economic conditions have declined in North Dakota resulting primarily from the impact of low oil prices and the impact of the COVID-19 pandemic.

The Tax Commissioner for the State of North Dakota reported an annual decrease in statewide taxable sales and purchases for 2020 of 13.7%. All reportable sectors of the economy reported declines. Two positive sectors reported gains that included retail +7.2% and manufacturing +2.60%. The largest decline reported included mining and oil extraction of (-46.14%)

The Management discussion and analysis section of this report details changes in intergovernmental revenues in more detail. State of North Dakota intergovernmental revenues in our General Fund decreased by 11.3% this year which was in line with our mid-year 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 \$54,932 in 2019 as compared to \$49,987 in 2015 representing a 9.8% increase in income levels over the past five years. Our labor force has increased to 73,397 in 2020 as compared to 65,665 five years ago which represents an 11.7% increase. Fargo's unemployment rate is currently 3.2% while the State of North Dakota is 4.8%.

### **Spike in Building Permits**

Construction activity in Fargo spiked in 2020. Building permits totaled \$720 million in 2020 compared to \$381 million in 2019 a 189% increase. All categories of construction permits increased this year with a total increase of multi-family construction rebounded from 2019 levels to a more normal pattern at \$110 million. Demand for housing remains strong in our community in light of the strength of our local economy, low mortgage rates and overall quality of life we offer. Permits issued through May 2021 increased by 220%.

In October 2020 AMAZON announced they will build a fulfillment center in Fargo. This is a major new industry employer. The facility is valued at approximately \$100 million and will employ hundreds of new employees. It is expected to be operational by late 2021.

### **Sales Taxes Funding Key Infrastructure**

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.

Fargo's locally imposed sales tax collections totaled \$51.7 million this year as compared to \$49.6 in 2019, a 4.2% increase. We were pleased to produce an increase after reporting minor decreases in 2016-2018.

## **MAJOR INITIATIVES FOR THE YEAR**

### **Fargo Moorhead Diversion Channel Project History and 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 occurred during 2018 and 2019 with a contractor selection planned for construction of the diversion channels and associated infrastructure after the meetings are completed.

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 were expended in 2020 and will continue into 2021 to acquire land in the flood channel footprint. This will allow us to move forward with a P3 project contractor bid. Vendor bids will be evaluated in May 2021 with a final P3 award in June, 2021.

The State of North Dakota passed HB 1431 during the 2021 Legislative session. This bill was the State's first bonding bill. This was a significant achievement in approach to addressing the infrastructure needs across the State. The Metro Diversion Authority was included in the bonding bill with a legislative appropriation of \$435 million. This will help reduce our project borrowing costs by having immediate access to capital funding. Previously, the funding plan was to be spread across future legislative sessions.

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.

### **Status of Major Municipal Facility Projects**

The former Fargo Police Department building in Downtown is temporarily repurposed for a winter shelter facility for the homeless population. Fargo also contributed significant funding to the homeless facility in Moorhead, MN that is operated by Churches United for the Homeless. These projects were funded with CARES Act funds.

The water treatment plant expansion was completed in 2019. 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. Work continued in 2020 in fine tuning monitoring and quality water quality control systems.

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 became a regional wastewater service provider to West Fargo in 2019 and expect to service Horace in

2020. This expansion is expected to be completed in 2023. Significant construction work continued on this project.

A new Downtown mixed use development (Mercantile) was approved in 2019 that includes the construction of another parking facility in the heart of our City. The City partnered with private developers and is responsible for financing the construction of the parking ramp portion of the project. Bonds for this project were issued in early 2020. The Mercantile ramp facility opened in 2020 as planned.

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 expects to market these facilities for development opportunity in the future and plan to use tax increment financing as needed for a variety of extraordinary costs.

### **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.

Part of our strategic vision includes studying the feasibility of a performing arts center to be located in the present Civic Center location. A fundraising consultant was engaged in 2020 to measure potential local benevolence levels that could be applied to this project. Results of this study are expected in 2021.

### **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, 2019. This will be the twenty-second 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, Budget Supervisor

This fiscal year will be one to remember as our financial reporting staff was challenged by the pandemic, alternative work settings, staff turnover, and additional workload resulting from a multitude of new grants. I deeply appreciate the high level of professionalism exhibited during 2020.

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 black ink that reads "Kent Costin". The signature is written in a cursive style with a large, stylized "K" and "C".

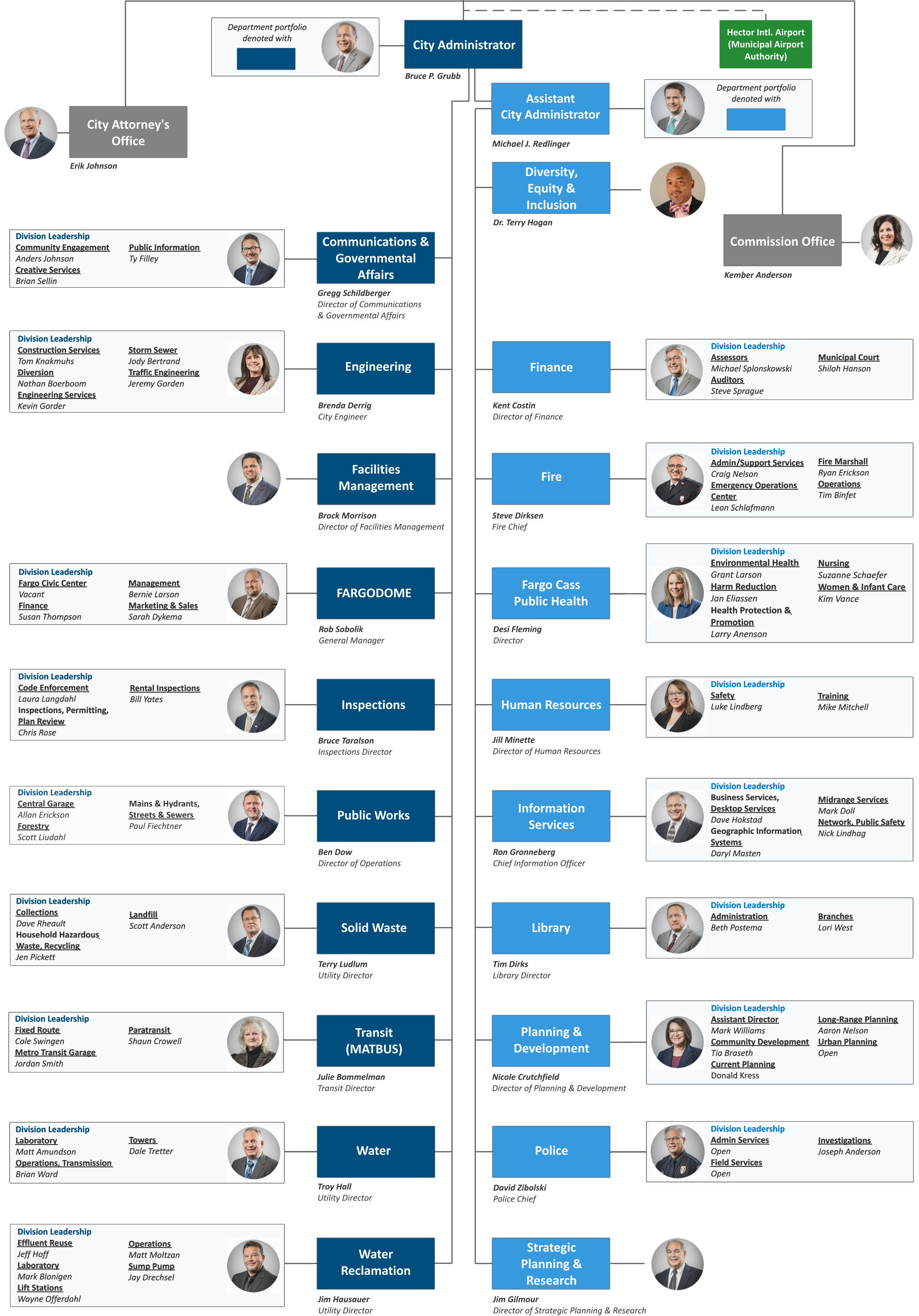
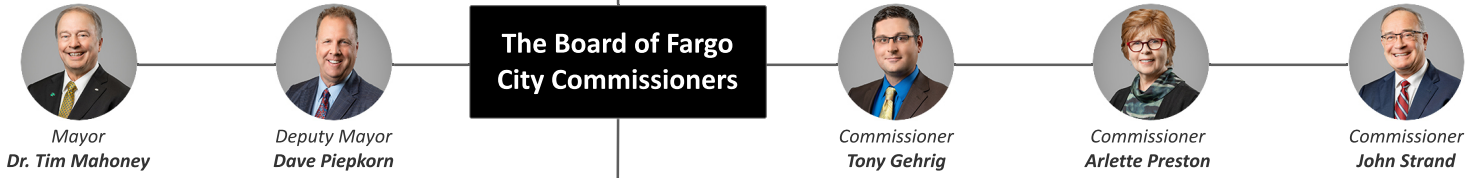
Kent A. Costin, CPA  
Director of Finance

**CITY OF FARGO, NORTH DAKOTA  
LISTING OF CITY OFFICIALS  
AS OF DECEMBER 31, 2020**

<b>NAME</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Dr. Tim Mahoney	Mayor	June 2022
Dave Piepkorn	Commissioner	June 2022
Tony Gehrig	Commissioner	June 2022
Arlette Preston	Commissioner	June 2024
John Strand	Commissioner	June 2024
Bruce Grubb	City Administrator	
Michael Redlinger	Assistant City Administrator	
Kent Costin	Finance Director	
Steven Sprague	City Auditor	
Kember Anderson	City Commission Executive Assistant	



THE RESIDENTS OF FARGO





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, 2019

*Christopher P. Morill*

Executive Director/CEO