



Executive Summary
December 31, 2018

City of Fargo, North Dakota

Purpose of the Executive Summary

The City receives audited financial statements each year, however the document is long and readers may find it difficult to read and understand. In an effort to help facilitate understanding we have put together an executive summary containing summarized information from the audited financial statements, as well as graphs and ratios. We believe the City Commission, management, and citizens of Fargo will have a clearer picture of the financial condition of the City by reading this summary. This is not a required report and we offer no opinion on the executive summary.

We hope this executive summary encourages discussion of the City's financial condition and to:

- Alert the City Commission and management to financial condition trends, both favorable and unfavorable.
- Put the City's financial condition in perspective by compiling data for several years.

Audit Opinion

The City received a "clean" audit opinion. What does that really mean? The audit opinion is a brief report that appears with the financial statements. A clean audit opinion is more precisely referred to as an unmodified opinion. An *unmodified opinion* means that the financial statements have been prepared using accounting principles generally accepted in the United States of America (GAAP), do not contain material misstatements, and are fairly presented.

Some readers of financial statements with an unmodified (clean) audit opinion believe that the auditors are signifying that the organization has a financial clean bill of health. They may believe the auditors are indicating that there is no fraud, that the organization is using its resources effectively and efficiently, and that the organization is in compliance with all laws and regulations. The auditor's report (audit opinion) on a financial statement audit is merely the auditor's professional opinion, based on audit work, on whether the financial statements were prepared in accordance with GAAP and are free from material misstatement.

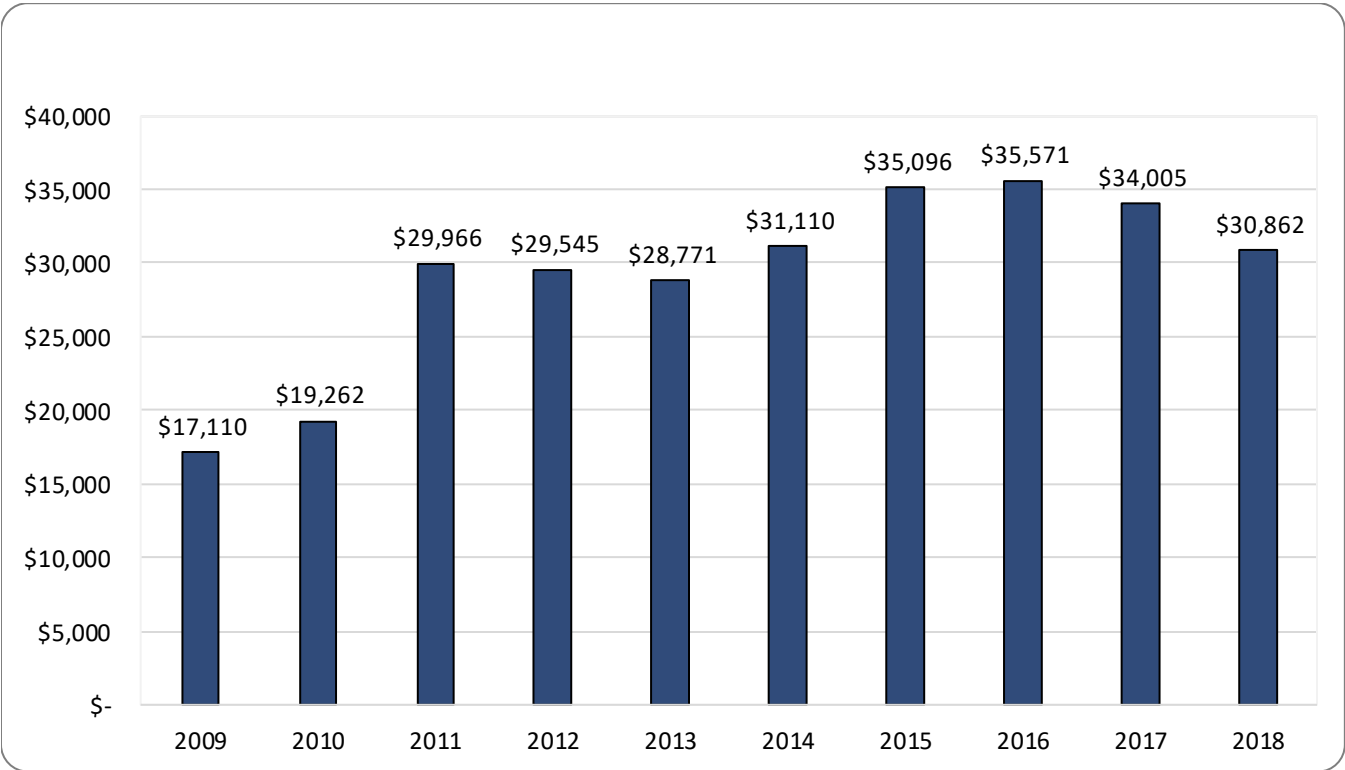
Audit of Federal Funds

All non-Federal entities that expend \$750,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act. A single audit is intended to provide a cost-effective audit in that one audit is conducted in lieu of multiple audits of individual programs. During 2018 the City expended approximately \$51.3 million in Federal awards.

For single audit planning purposes the City was determined to be a low-risk auditee.

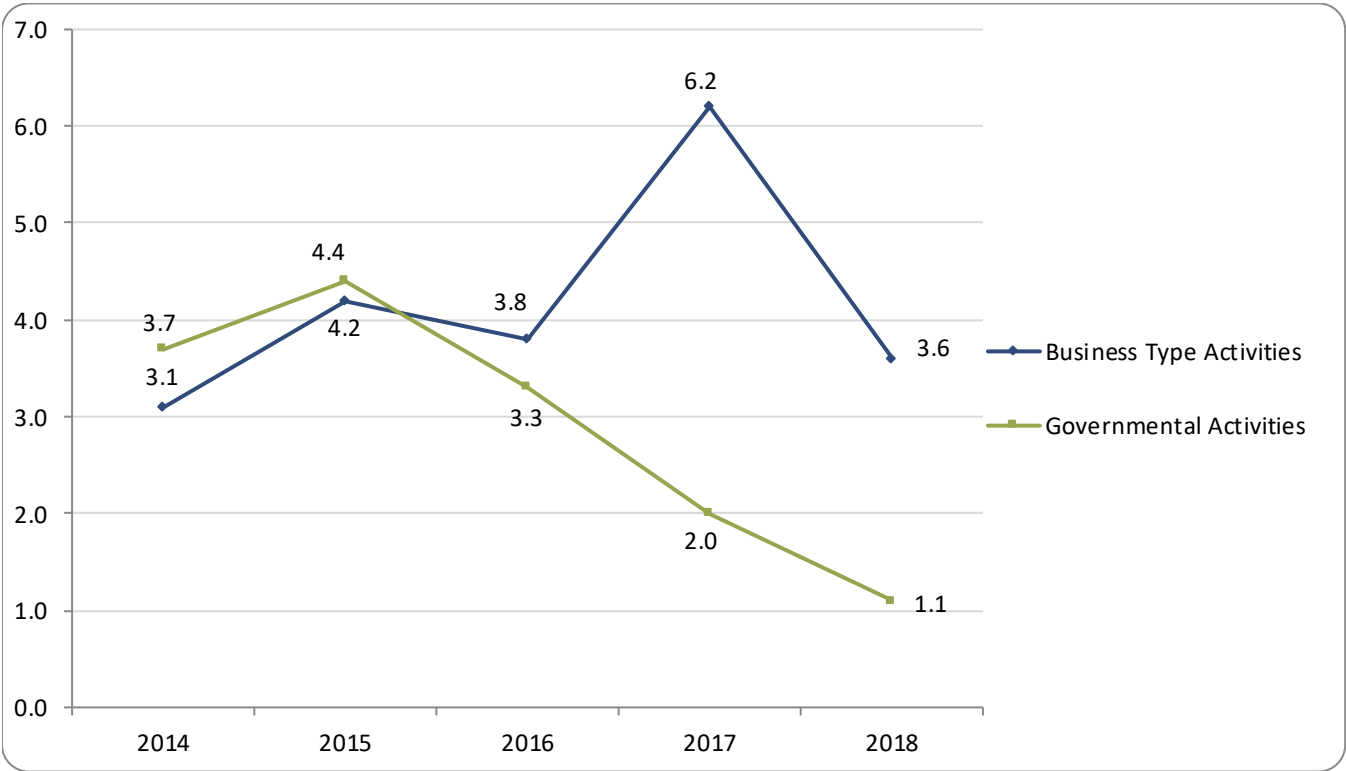
The City received an unmodified opinion on compliance for the major federal award programs report.

City of Fargo, North Dakota
General Fund Cash and Investments (In Thousands)
Years Ended December 31, 2009 through December 31, 2018



Liquidity refers to an organization’s ability to pay short-term financial obligations. Liquidity involves determining the level of cash on hand and in the bank and other assets that can be easily converted to cash. This cash position is compared to accounts payable and other current liabilities as well as that portion of long-term liabilities that are due within one year. Because a significant portion of the City’s current debt obligations are covered by certified special assessments each year, current portion of the special assessments receivable are considered to be easily converted to cash and are included in the formula. The formula for calculating the liquidity ratio is:

$$\frac{\text{Cash and cash equivalents} + \text{Current portion of special assessments receivable}}{\text{Accounts payable and other current liabilities} + \text{Long-term liabilities due within one year}}$$



Governmental activities include the general fund, special revenue funds, capital projects fund, and debt service fund.

Business-type activities include the proprietary funds such as Airport, Water, Wastewater, Storm Sewer, Solid Waste, FargoDome, Southeast Cass Sewer, Vector Control, and Forestry.

A liquidity ratio of less than one to one (for example 0.8) is considered by financial analysts to be a negative factor in an organization’s financial condition.

Liquidity is a controversial financial indicator according to many analysts. Because the ratio can change daily according to receipt of cash, any analysis of the liquidity ratio must be done at the same time of the year for a meaningful comparison.¹ This comparison was done with the year-end cash and liability position.

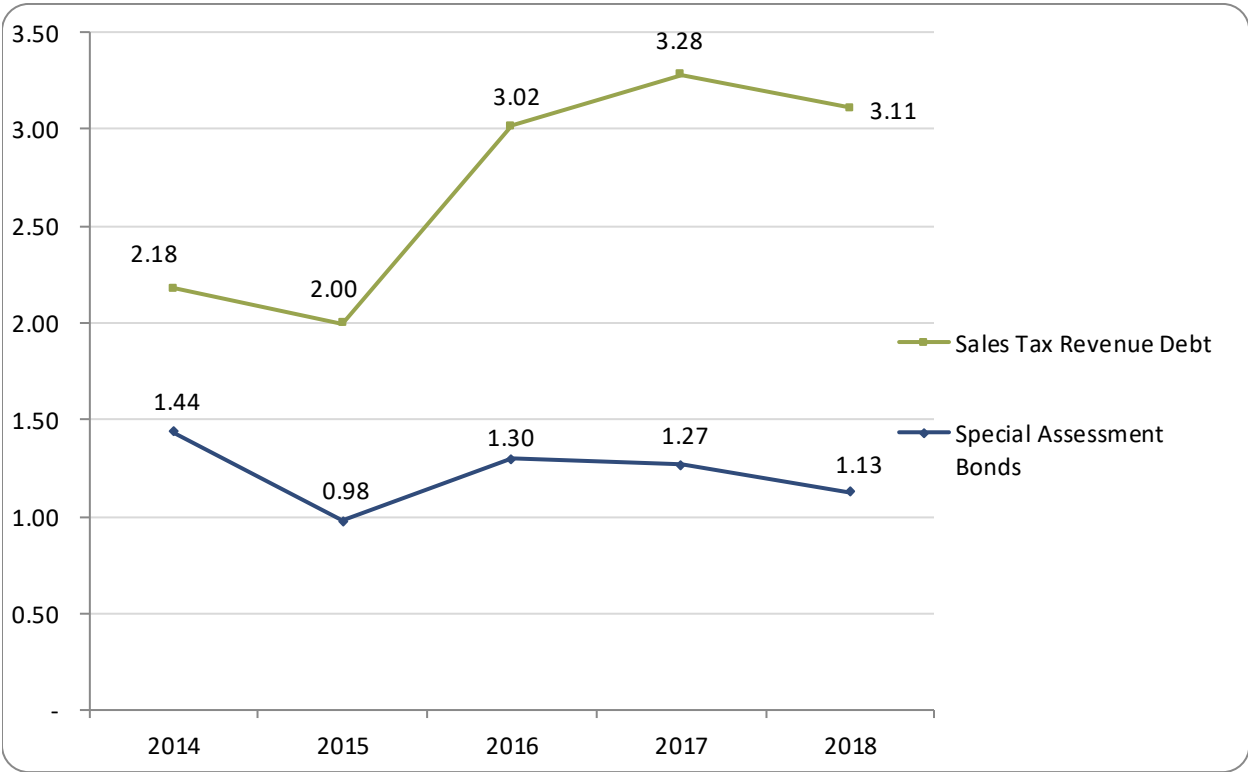
¹ Evaluating Financial Condition: a Handbook for Local Governments, page 71

A financial indicator related to debt is the Pledged Revenue Coverage ratio. This is the amount of cash flow available to meet annual interest and principal payments on debt. A ratio of 1.0 is ideal and would mean that there are adequate revenues to cover debt payments. A ratio of less than 1.0 would mean there are not sufficient revenues to cover required debt payments.

The formula for calculating Pledged Revenue Coverage is:

$$\frac{\text{Net Revenue Available for Debt Service}}{\text{Principal + Interest Long-Term Debt Payments}}$$

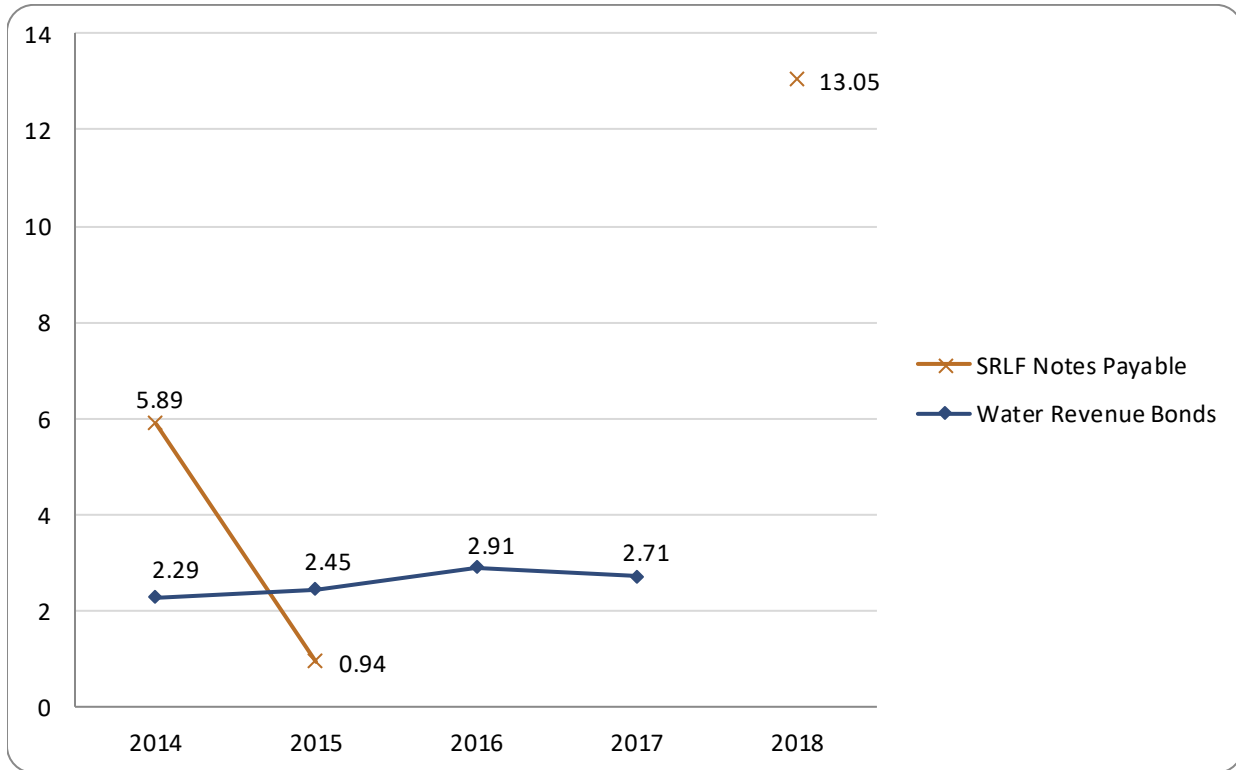
Governmental Activities²:



NOTE: At the end of 2018, there was \$30,278,380 in prepaid special assessments that can be used to make debt service payments.

² Comprehensive Annual Financial Report for the year ended December 31, 2018, page 146

Business-Type Activities³:

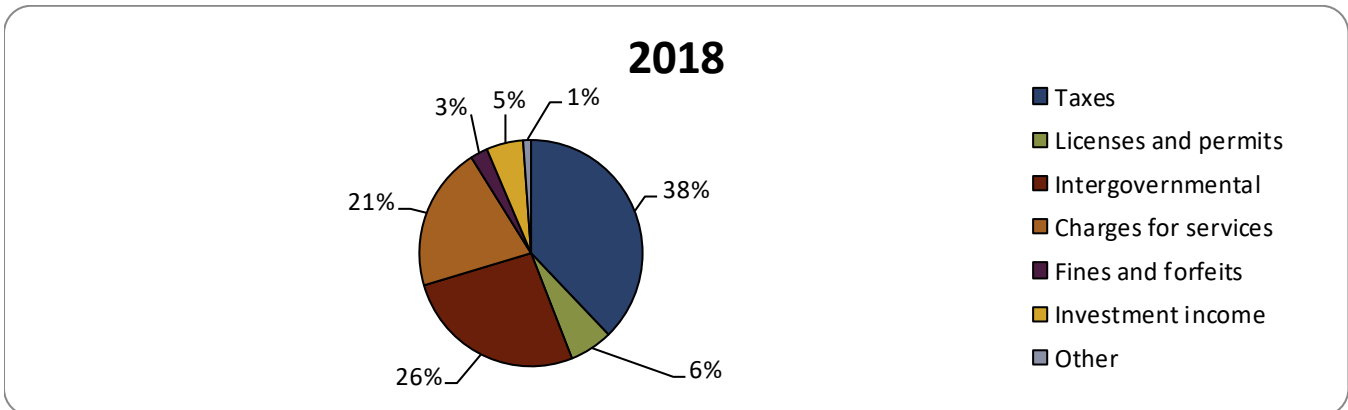
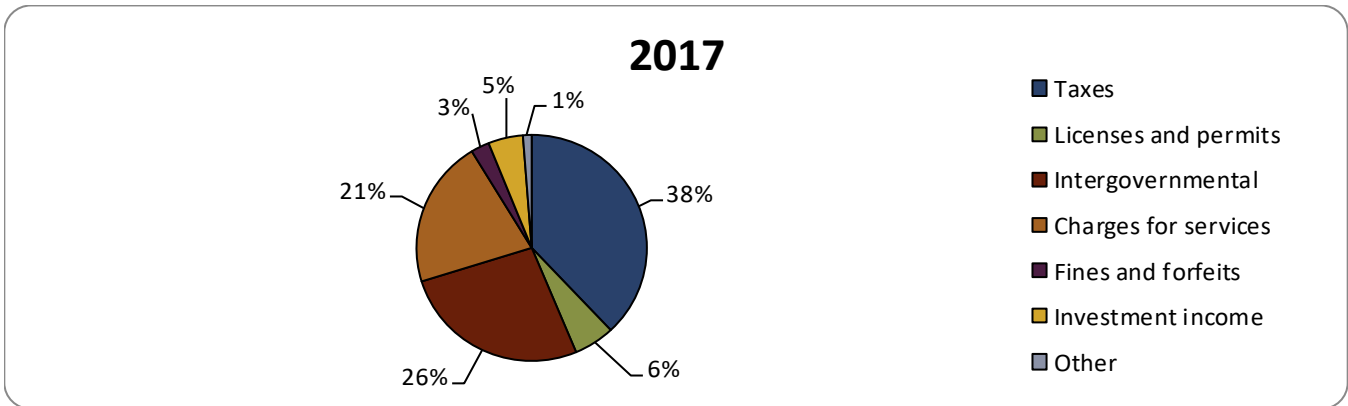
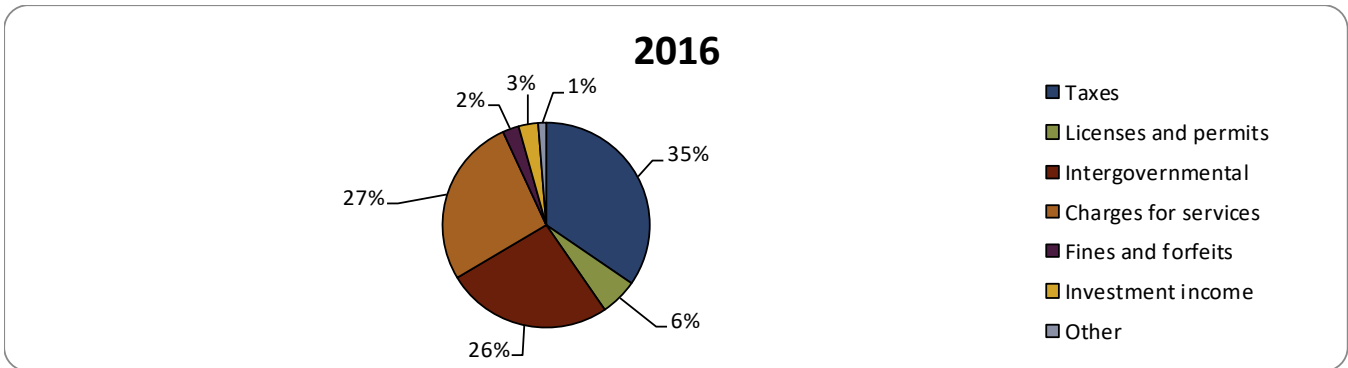


NOTE: Water Revenue Bonds reported in the Business Type Activities of the City were paid off in 2018. Wastewater SRLF Notes Payable reported in the Business Type Activities of the City were paid off in 2016, with Water SRLF Notes Payable being drawn in 2018.

City of Fargo, North Dakota

General Fund Revenues

Years Ended December 31, 2016 through December 31, 2018

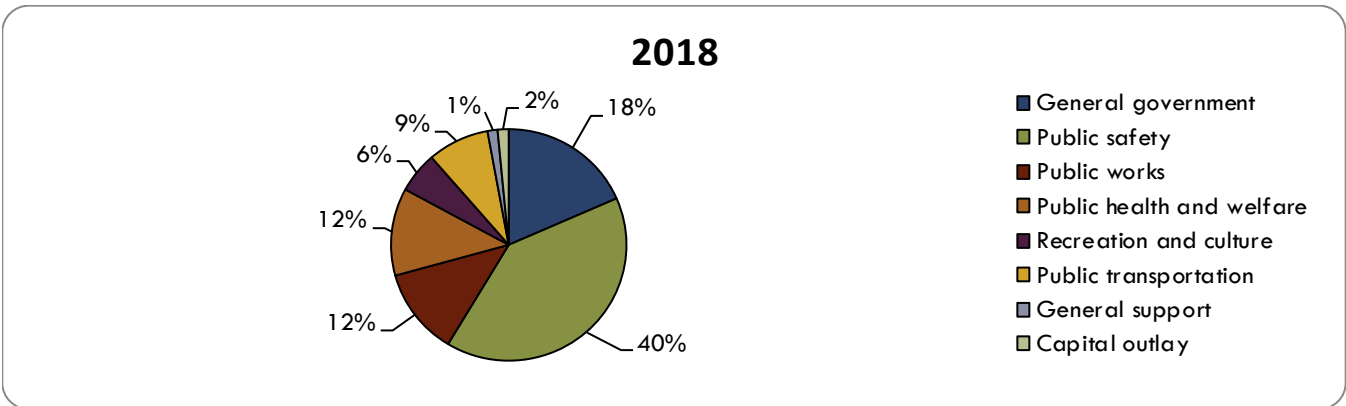
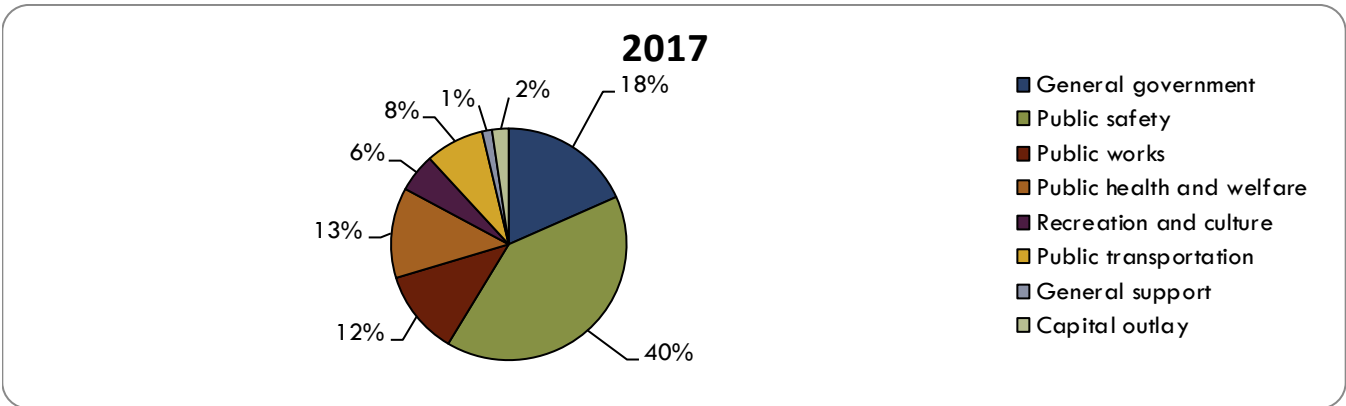
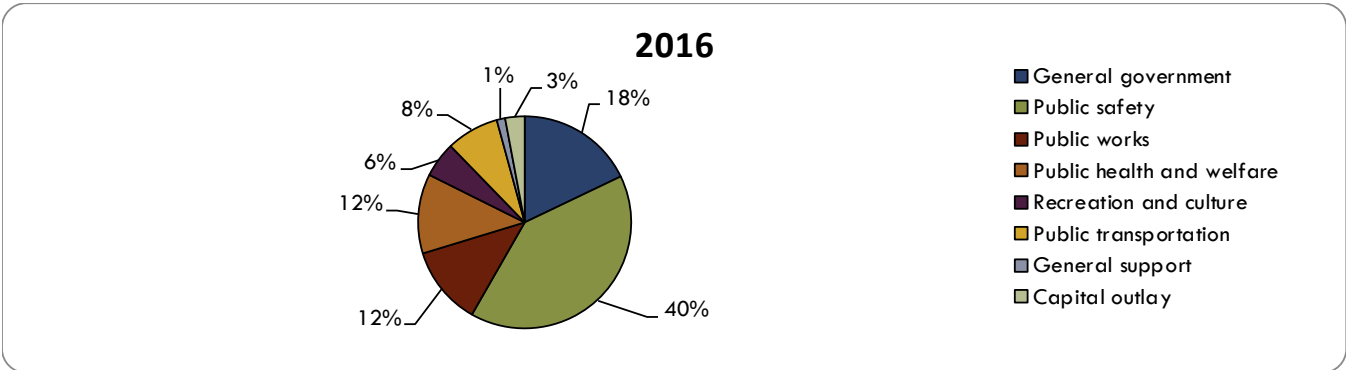


	2016	2017	2018	% Change 2016 to 2018
Licenses and permits	\$ 4,832,453	\$ 4,628,182	\$ 5,198,720	7.58%
Taxes	28,702,567	30,690,365	31,529,144	9.85%
Intergovernmental	21,543,645	21,434,863	22,029,382	2.25%
Charges for services	22,161,433	17,042,076	17,214,422	-22.32%
Investment income	2,525,865	3,942,045	4,444,435	75.96%
Fines and forfeits	2,121,582	2,104,662	2,095,543	-1.23%
Other	1,030,903	991,212	939,676	-8.85%
Total	\$ 82,918,448	\$ 80,833,405	\$ 83,451,322	0.64%

City of Fargo, North Dakota

General Fund Expenditures

Years Ended December 31, 2016 through December 31, 2018



	2016	2017	2018	% Change 2016 to 2018
General government	\$ 15,850,432	\$ 16,709,859	\$ 17,159,027	8.26%
Public safety	35,804,818	36,823,018	37,462,432	4.63%
Public works	10,662,455	10,710,691	11,285,970	5.85%
Public health and welfare	10,762,458	11,533,635	11,380,244	5.74%
Recreation and culture	4,770,797	4,896,092	5,297,412	11.04%
Public transportation	7,092,990	7,374,024	7,892,018	11.27%
General support	1,135,179	1,235,095	1,284,519	13.16%
Capital outlay	2,611,766	2,094,902	1,411,304	-45.96%
Total	\$ 88,690,895	\$ 91,377,316	\$ 93,172,926	5.05%

City of Fargo, North Dakota
Budget to Actual – General Fund
Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Taxes	\$ 31,720,300	\$ 31,720,300	\$ 31,529,144	\$ (191,156)
Licenses and permits	4,790,000	4,790,000	5,198,720	408,720
Intergovernmental revenues	20,945,665	21,897,877	22,029,382	131,505
Charges for services	16,837,863	16,542,486	17,214,422	671,936
Fines and forfeits	2,536,500	2,186,500	2,095,543	(90,957)
Investment income	3,366,000	3,366,000	4,444,435	1,078,435
Miscellaneous Revenue	937,672	1,083,361	939,676	(143,685)
Total revenues	<u>81,134,000</u>	<u>81,586,524</u>	<u>83,451,322</u>	<u>1,864,798</u>
				2.3%
				Positive
Expenditures				
General government	17,087,212	17,079,049	17,159,027	(79,978)
Public safety	39,390,974	37,526,095	37,462,432	63,663
Public works	11,840,265	11,340,811	11,285,970	54,841
Public health and welfare	11,584,989	11,317,118	11,380,244	(63,126)
Recreation and culture	5,155,457	5,296,621	5,297,412	(791)
Public transportation	8,442,657	8,044,117	7,892,018	152,099
General support	(931,535)	1,396,570	1,192,789	203,781
Capital outlay	630,100	2,061,761	1,411,304	650,457
Debt Service				
Principal	85,081	85,081	85,081	-
Interest and fiscal charges	6,649	6,649	6,649	-
Total expenditures	<u>93,291,849</u>	<u>94,153,872</u>	<u>93,172,926</u>	<u>980,946</u>
				1.0%
				Positive
Revenues Over (Under) Expenditures	(12,157,849)	(12,567,348)	(9,721,604)	2,845,744
Other Financing Sources (Uses)				
Transfers in	14,049,000	14,049,000	13,440,600	(608,400)
Transfer out	(3,076,151)	(6,065,504)	(6,064,881)	623
Capital lease	-	-	38,332	38,332
Total other financing sources (uses)	<u>10,972,849</u>	<u>7,983,496</u>	<u>7,414,051</u>	<u>(569,445)</u>
Net Change in Fund Balance	<u>\$ (1,185,000)</u>	<u>\$ (4,583,852)</u>	<u>(2,307,553)</u>	<u>\$ 2,276,299</u>
Fund Balance - Beginning			<u>37,846,574</u>	
Fund Balance - Ending			<u><u>\$ 35,539,021</u></u>	

Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance is further divided into nonspendable, restricted, committed, assigned, and unassigned categories. Nonspendable fund balances represent amounts that cannot be spent because they are not in spendable form, such as inventory and prepaid expenses. Restricted fund balance is legally restricted and cannot be appropriated for other spending. Committed fund balance is intended for a specific activity and imposed by formal action of the City Commission but is not legally restricted. Assigned fund balance is also intended for a specific activity by city designated individuals but is also not legally restricted. Unassigned fund balance can be thought of as reserved or a “rainy day” fund.

A positive fund balance:

- Contributes to a favorable bond rating
- Produces investment income
- Provides a source of working capital to meet cash flow needs
- Offers a cushion for unexpected expenditures or revenue shortfalls

The Government Finance Officers Association (GFOA) encourages local governments to adopt a policy on the fund balance in the general fund such that the unrestricted (committed, assigned, and unassigned) portion of fund balance is maintained at no less than 5 to 15 percent.⁴

In the General Fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 25 percent of the total current year general fund expenditures.⁵

⁴ *Appropriate Level of Unreserved Fund Balance in the General Fund, GFOA Best Practice, 2009*

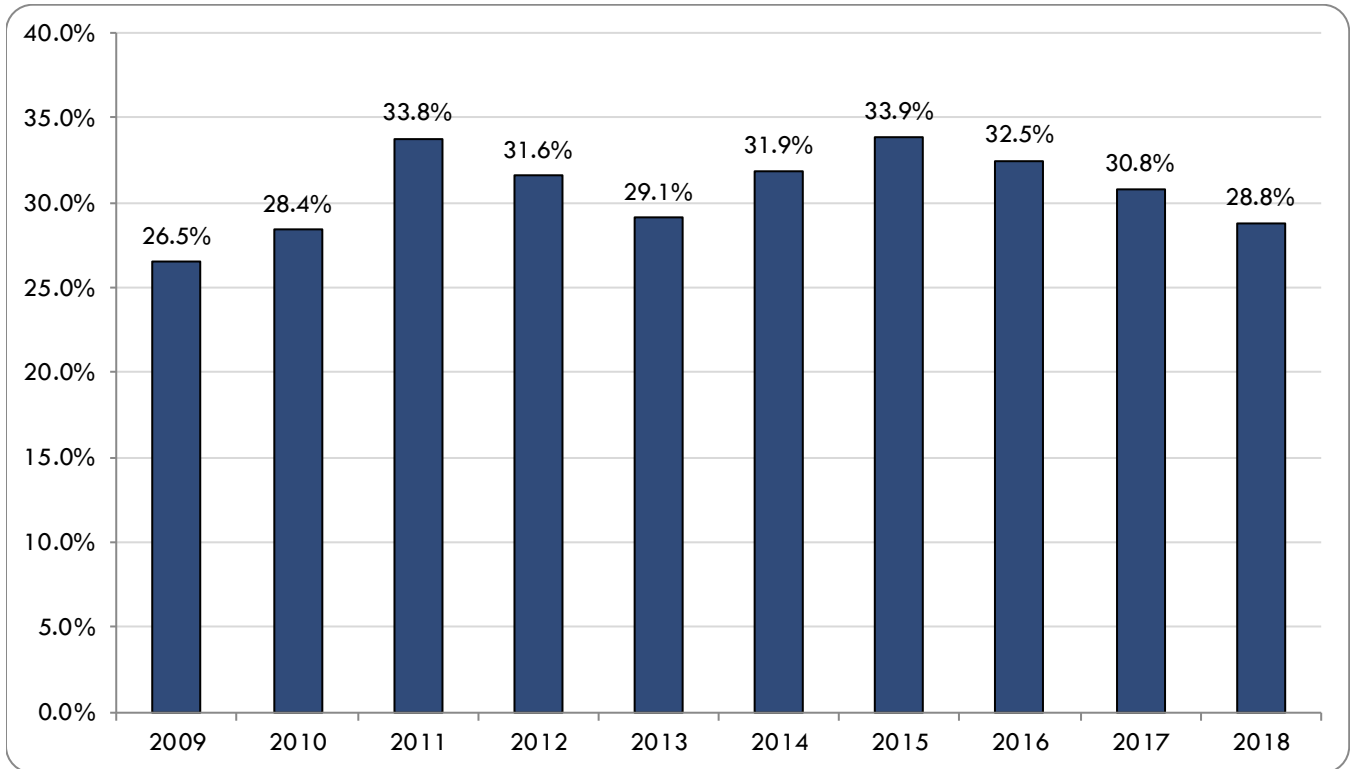
⁵ *City of Fargo 2018 Comprehensive Annual Financial Report, page 33*

City of Fargo, North Dakota

Fund Balance – General Fund

Years Ended December 31, 2009 through December 31, 2018

The City's unassigned fund balance as a percentage of expenditures in the General Fund for the last ten years is as follows:



The actual amount of unassigned fund balance in the General Fund at the conclusion of the last ten years was:

2009	2010	2011	2012	2013
\$ 17,564,092	\$ 19,629,816	\$ 23,450,515	\$ 23,280,959	\$ 22,428,922
2014	2015	2016	2017	2018
\$ 25,881,011	\$ 29,041,175	\$ 28,854,936	\$ 28,099,032	\$ 26,862,322

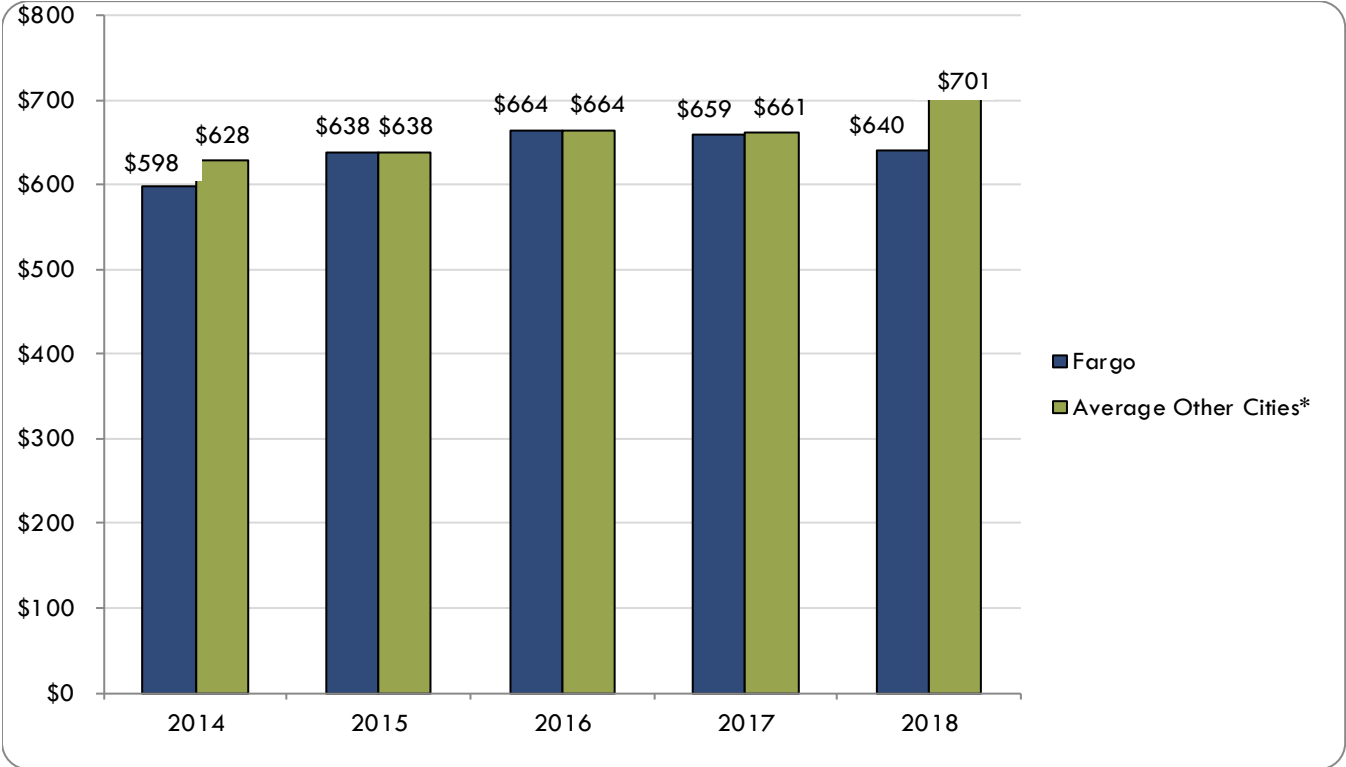
Calculating the operating expenditures of the City’s general fund relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should take into account the effects of inflation. Additionally, increased services provided by the local government can affect this ratio.

Operating expenditures are used to calculate this ratio because capital expenditures, such as buildings and heavy equipment, can fluctuate tremendously and make trend analysis difficult.

The formula for calculating operating expenditures per capita is:

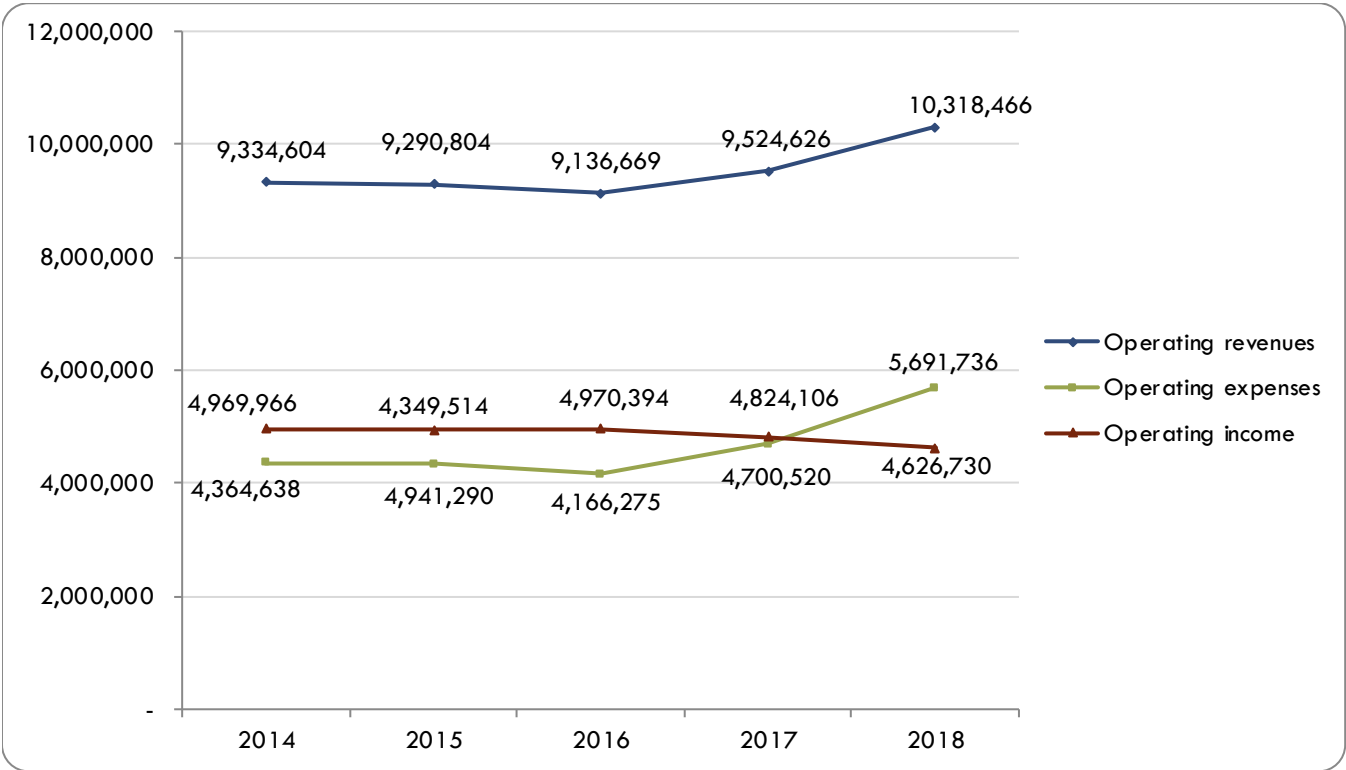
$$\frac{\text{Operating expenditures (constant dollars)}}{\text{Population}}$$

A warning trend would be increasing operating expenditures per capita that are not explainable by inflation or increased services. The operating expenditures per capita in the general fund, adjusted for inflation, are as follows:



Average increase in operating expenditures per capita for the City of Fargo from 2014 – 2018 was 1.79% per year.

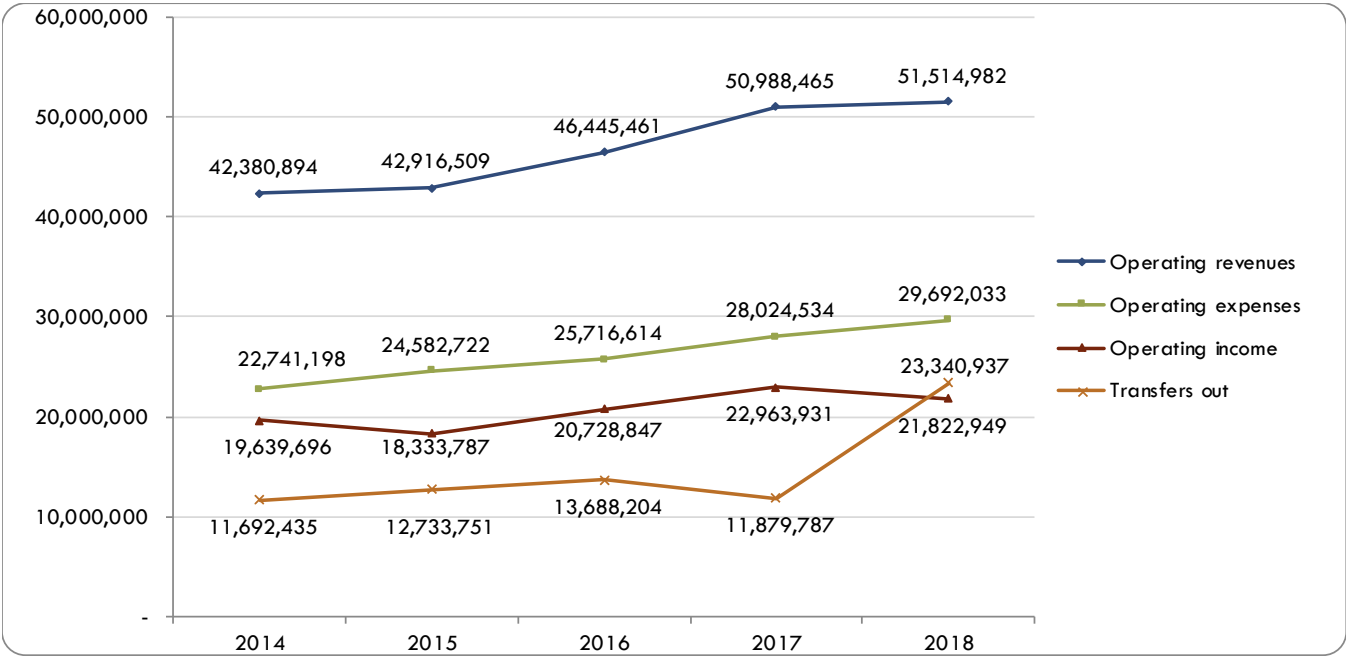
**Average Other Cities includes information available within CAFR data on the City of Bismarck, Sioux Falls, Grand Forks, and Minot’s websites. NOTE: For 2018, Grands Forks CAFR information was not available therefore the City was excluded.*



Operating revenues consist of charges for services and general property taxes. Average increase in this item from 2014 – 2018 was 2.61% per year.

Operating expenses consist of salaries and benefits, materials and supplies, and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2014 – 2018 was 7.34% per year.

Operating income is the difference between operating revenues and operating expenses.



This represents the Water, Wastewater, Storm Sewer, and Solid Waste funds.

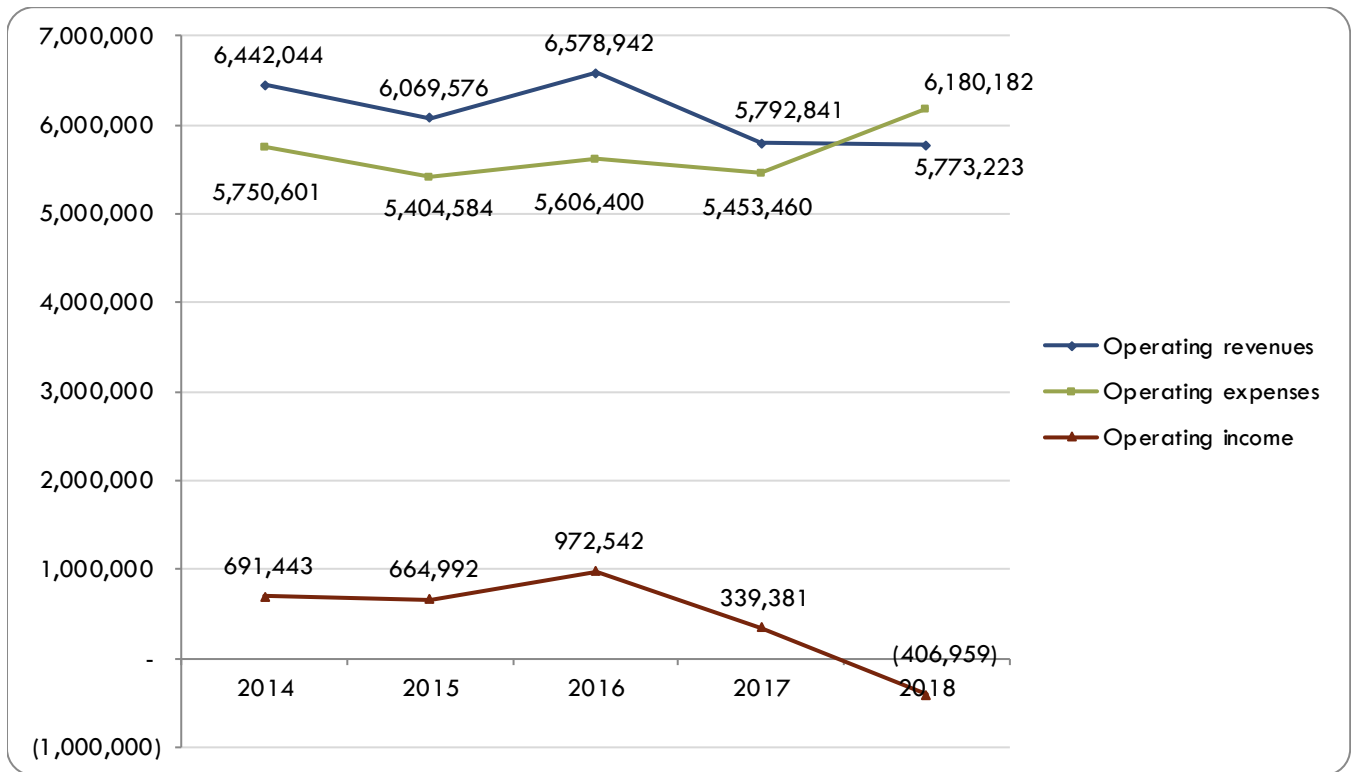
Operating revenues consist of charges for services. Average increase in this item from 2014 – 2018 was 5.07% per year.

Operating expenses consist of salaries and benefits, materials and supplies, and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2014 – 2018 was 6.91% per year.

Operating income is the difference between operating revenues and operating expenses.

Transfers out are the annual appropriations to the City’s General Fund, special revenue funds, capital projects funds, and other enterprise funds.

NOTE: A one-time transfer of \$73,154,453 of existing debt from governmental funds to utility funds was removed from the 2018 “Transfers out” figure above. See 2018 CAFR page 49 for additional information.

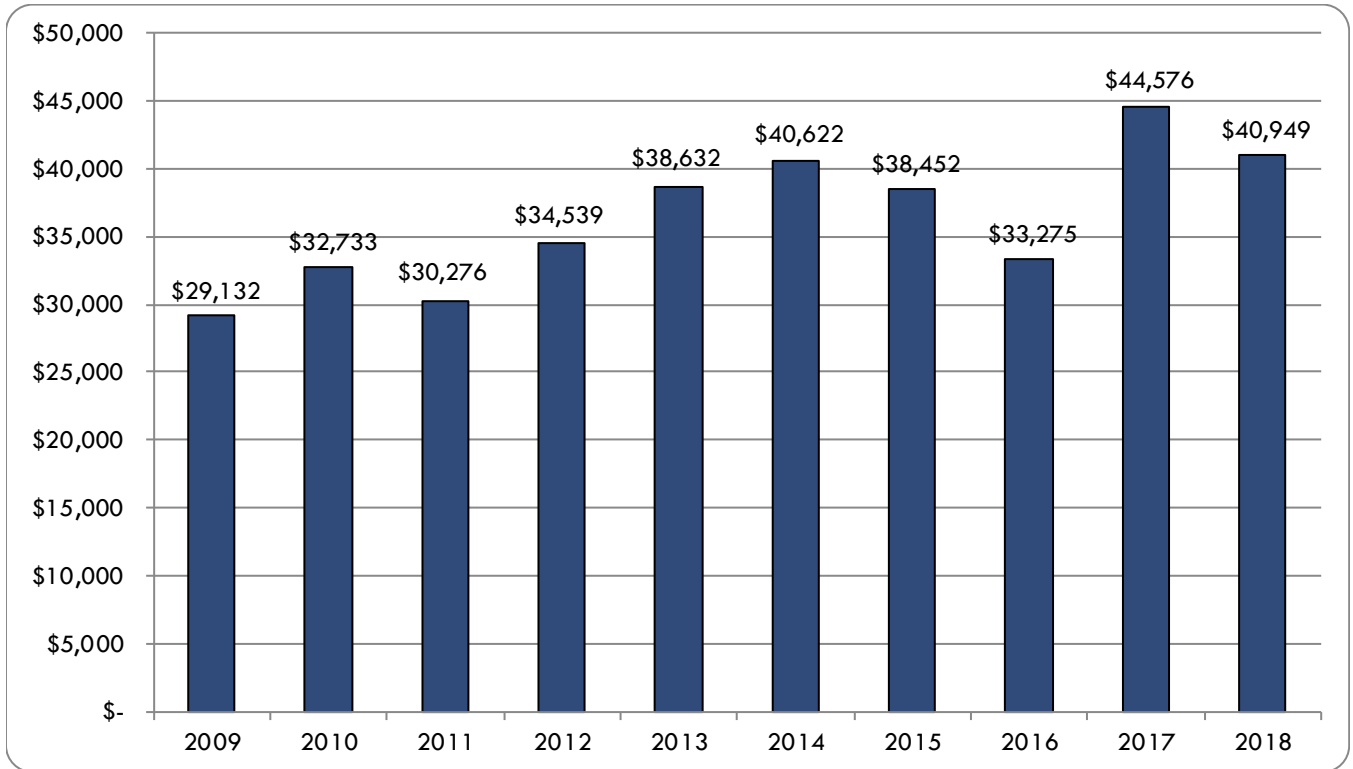


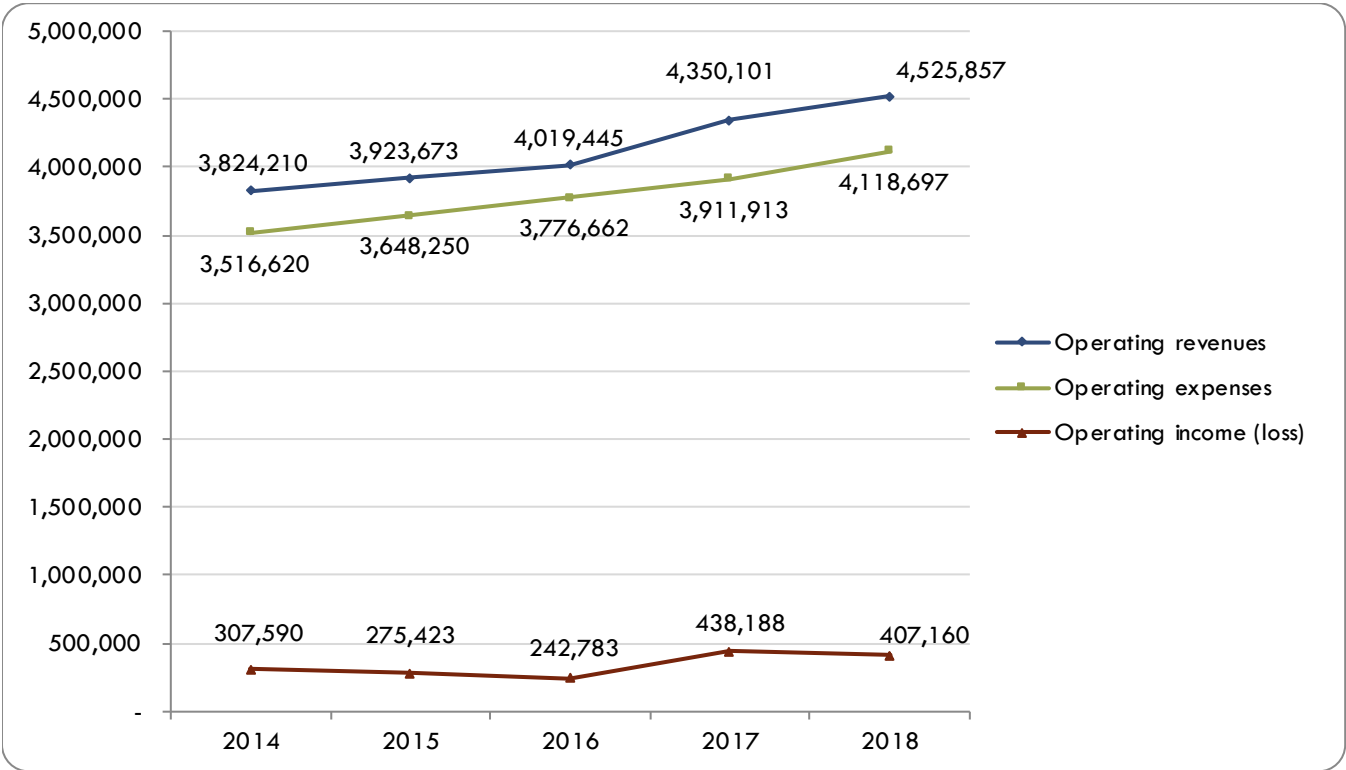
Operating revenues consist of charges for services. Average decrease in this item from 2014 – 2018 was 2.42% per year.

Operating expenses consist of salaries and benefits and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2014 – 2018 was 2.08% per year.

Operating income is the difference between operating revenues and operating expenses.

The balance in the FARGODOME Capital Escrow Fund (in thousands) at the conclusion of the previous ten years is as follows:



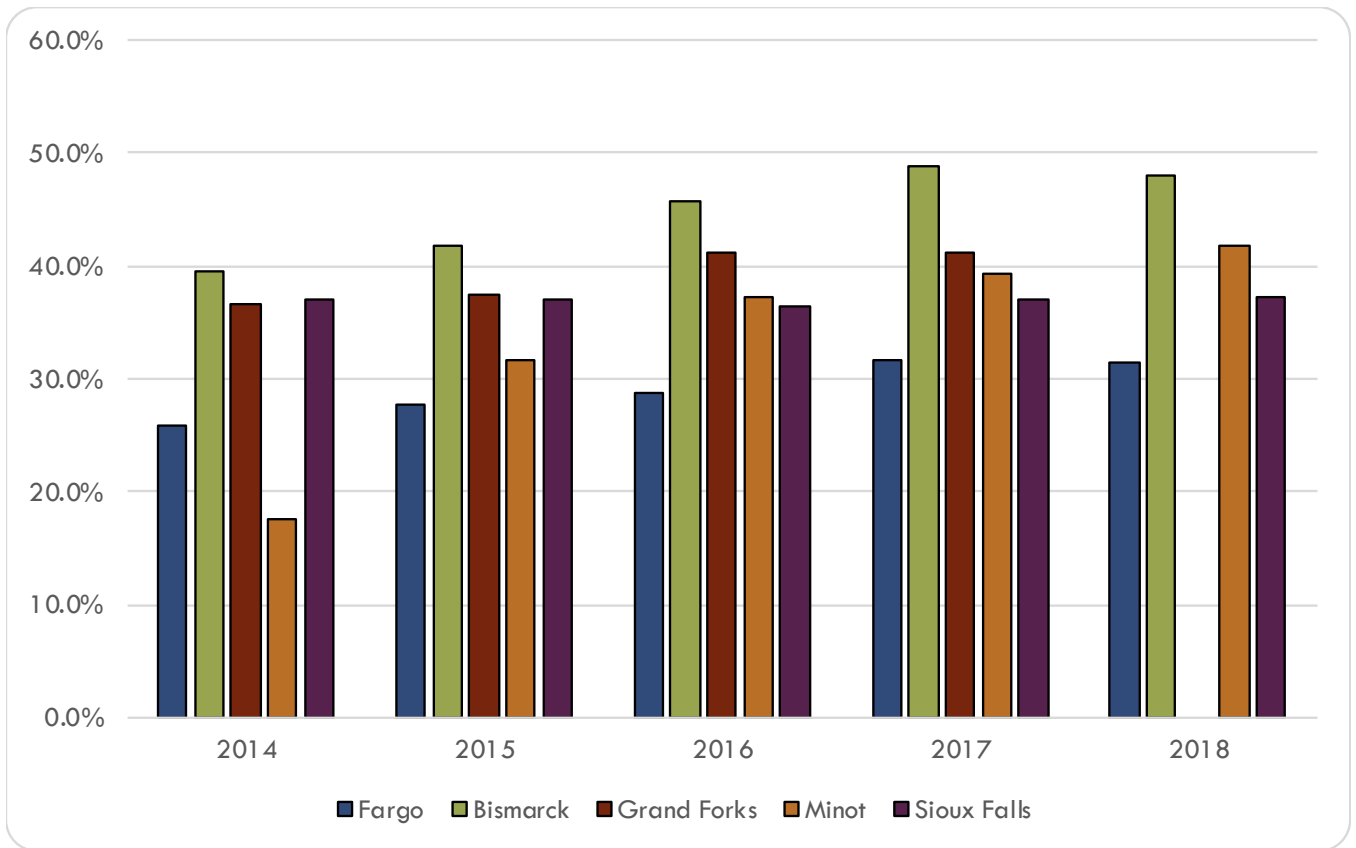


This represents the Southeast Cass Sewer, Vector Control, Street Lighting and Forestry funds.

Operating revenues consist of charges for services. Average increase in this item from 2014 – 2018 was 4.33% per year.

Operating expenses consist of salaries and benefits, materials and supplies, and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2014 – 2018 was 4.03% per year.

Operating income (loss) is the difference between operating revenues and operating expenses.



This represents the property tax for each City as a percentage of total general fund revenues from 2014 – 2018.

*Note: 2018 Grand Forks CAFR was not available.

City of Fargo, North Dakota

Property Tax – General Fund

Years Ended December 31, 2014 through December 31, 2018

Property Tax as a percentage of total General Fund Revenues:

	Fargo	Bismarck	Grand Forks	Minot	Sioux Falls
2014	25.8%	39.6%	36.7%	17.5%	37.1%
2015	27.8%	41.8%	37.4%	31.7%	37.1%
2016	28.7%	45.7%	41.2%	37.3%	36.5%
2017	31.6%	48.9%	41.1%	39.3%	37.0%
2018	31.5%	48.1%		41.9%	37.3%

*Note: 2018 Grand Forks CAFR was not available.

Property tax amounts per City:

	Fargo	Bismarck	Grand Forks	Minot	Sioux Falls
2014	\$ 21,507,831	\$ 12,463,045	\$ 13,539,639	\$ 4,720,060	\$ 51,025,183
2015	\$ 22,779,266	\$ 12,847,186	\$ 13,644,445	\$ 7,858,702	\$ 53,344,081
2016	\$ 23,782,357	\$ 14,906,928	\$ 14,432,203	\$ 8,857,271	\$ 55,003,521
2017	\$ 25,547,398	\$ 15,927,826	\$ 15,004,781	\$ 9,700,289	\$ 57,591,924
2018	\$ 26,243,297	\$ 17,128,137		\$ 12,537,258	\$ 60,238,488

General Fund total revenues per City:

	Fargo	Bismarck	Grand Forks	Minot	Sioux Falls
2014	\$ 83,294,401	\$ 31,447,807	\$ 36,886,352	\$ 26,904,988	\$ 137,738,370
2015	\$ 82,090,554	\$ 30,722,359	\$ 36,501,831	\$ 24,789,564	\$ 143,934,569
2016	\$ 82,918,448	\$ 32,641,852	\$ 35,041,007	\$ 23,751,660	\$ 150,883,746
2017	\$ 80,833,405	\$ 32,606,834	\$ 36,516,553	\$ 24,679,025	\$ 155,598,524
2018	\$ 83,451,322	\$ 35,631,088		\$ 29,905,595	\$ 161,489,465

City of Fargo, North Dakota
 Schedule of Federal Expenditures
 Year Ended December 31, 2018

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Agriculture				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health				
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	G17.452A & G17.998	\$ 524,764	
Total Department of Agriculture				\$ 524,764
Department of Housing and Urban Development				
<i>Direct Federal Funding:</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	<u>367,383</u>	
Total CDBG - Entitlement Grants Cluster			367,383	76,376
Home Investment Partnerships Program	14.239	N/A	416,126	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Division of Community Services				
Community Development Block Grants/State's Program	14.228	2457-NSP09	2,179	
Emergency Solutions Grant Program	14.231	4211-ESG17 & 4343-ESG18	<u>26,311</u>	
Total Department of Housing and Urban Development				811,999 76,376
Department of the Interior				
<i>Indirect Federal Funding passed through-</i>				
North Dakota State Historical Society				
Historic Preservation Fund Grants In-Aid	15.904	38-17-141296-27 & 38-18-161422-27	<u>21,072</u>	
Total Department of the Interior				21,072
Department of Justice				
<i>Direct Federal Funding:</i>				
Public Safety Partnership and Community Policing Grants	16.710	N/A	103,455	
<i>Indirect Federal Funding passed through-</i>				
Cass County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-H3010-ND-DJ & 2017-H2423-ND-DJ	25,283	
State of North Dakota Office of Attorney General				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	17217 & 16505	<u>10,286</u>	7,800
CFDA subtotal			35,569	
Services for Trafficking Victims	16.320	HTF15	<u>1,171</u>	
Total Department of Justice				140,195 7,800

City of Fargo, North Dakota
Schedule of Federal Expenditures
Year Ended December 31, 2018

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Transportation				
<i>Direct Federal Funding:</i>				
Airport Improvement Program	20.106	N/A	1,872,363	
Federal Transit Formula Grants	20.507	N/A	3,566,911	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Transportation				
Bus and Bus Facilities Formula Program	20.526	38171124 & 38170156	<u>1,134,946</u>	
Total Federal Transit Cluster				4,701,857
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	38171108 & 38180982	<u>228,177</u>	
Total Transit Services Programs Cluster				228,177
Highway Planning and Construction	20.205	38170627	<u>670,000</u>	
Total Highway Planning and Construction Cluster				670,000
State and Community Highway Safety	20.600	PHSPDD1811-02-04	7,000	
National Priority Safety Programs	20.616	PHSPOP1805-05-06, PHSPID1810-02-05, PHSPID1810-12-02, PHSPID1810-03-02, PHSPOP1905-05-06, PHSPID1910-02-05, PHSPID1910-03-02, & PHSPID1910-12-03	<u>48,467</u>	
Total Highway Safety Cluster				55,467
State of North Dakota Department of Emergency Services				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	7	<u>16,108</u>	
Total Department of Transportation				7,543,972
National Endowment for the Humanities				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Humanities Council				
Promotion of the Humanities Federal/State Partnership	45.129	18119	<u>1,500</u>	
Total National Endowment for the Humanities				1,500
Environmental Protection Agency				
<i>Direct Federal Funding:</i>				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	27,287	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health				
Capitalization Grants for Clean Water State Revolving Funds	66.458	380715-04 & 380715-05	<u>5,669,326</u>	
Total Clean Water State Revolving Fund Cluster				5,669,326
Capitalization Grants for Drinking Water State Revolving Funds	66.468	0900336-03	<u>30,494,162</u>	
Total Drinking Water State Revolving Fund Cluster				30,494,162
Performance Partnership Grants	66.605	G17.005, G17.305, & G17.756	<u>2,772</u>	
Total Environmental Protection Agency				<u>36,193,547</u>

City of Fargo, North Dakota
 Schedule of Federal Expenditures
 Year Ended December 31, 2018

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Health and Human Services				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health				
Public Health Emergency Preparedness	93.069	G17.016, G17.040, G17.066, G17.623A, G17.636, & G17.678	365,548	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	PF17.124	24,548	
Family Planning Services	93.217	G17.222A & G17.954	217,028	
Immunization Cooperative Agreements	93.268	15.1017a	70,104	
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539	G17.300	4,941	
Preventive Health and Health Services Block Grant funded solely with PPHF	93.758	G17.427, G17.443, & G17.988	28,500	
Cancer Prevention and Control Programs	93.898	PF17.029 & PF17.156	82,284	
HIV Care Formula Grants	93.917	G15-1063 & G17.611	127,253	
HIV Prevention Activities Health Department Based	93.940	PF17.104A & G17.581	103,816	
Preventive Health and Health Services Block Grant	93.991	G17.1068	1,500	
Maternal and Child Health Services Block Grant to the States	93.994	G17.435 & G17.973	164,241	2,705
Lutheran Social Services				
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2018-CMA 4 & 2019-CMA 4	6,099	
Refugee and Entrant Assistance Discretionary Grants	93.576	2019-HP 3	2,282	
Total Department of Health and Human Services			1,198,144	2,705
Department of Homeland Security				
<i>Indirect Federal Funding passed through-</i>				
State of North Dakota Department of Emergency Services				
Hazard Mitigation Grant	97.039	FEMA-1981-DR-9-R	4,624,075	
Homeland Security Grant Program	97.067	8, 14, 14, 15, & 35	159,608	
Cass County				
Emergency Management Performance Grants	97.042	9 & 41	60,687	
Total Department of Homeland Security			4,844,370	
Total Expenditures of Federal Awards			\$ 51,279,563	\$ 86,881