



Executive Summary  
December 31, 2017

# 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**

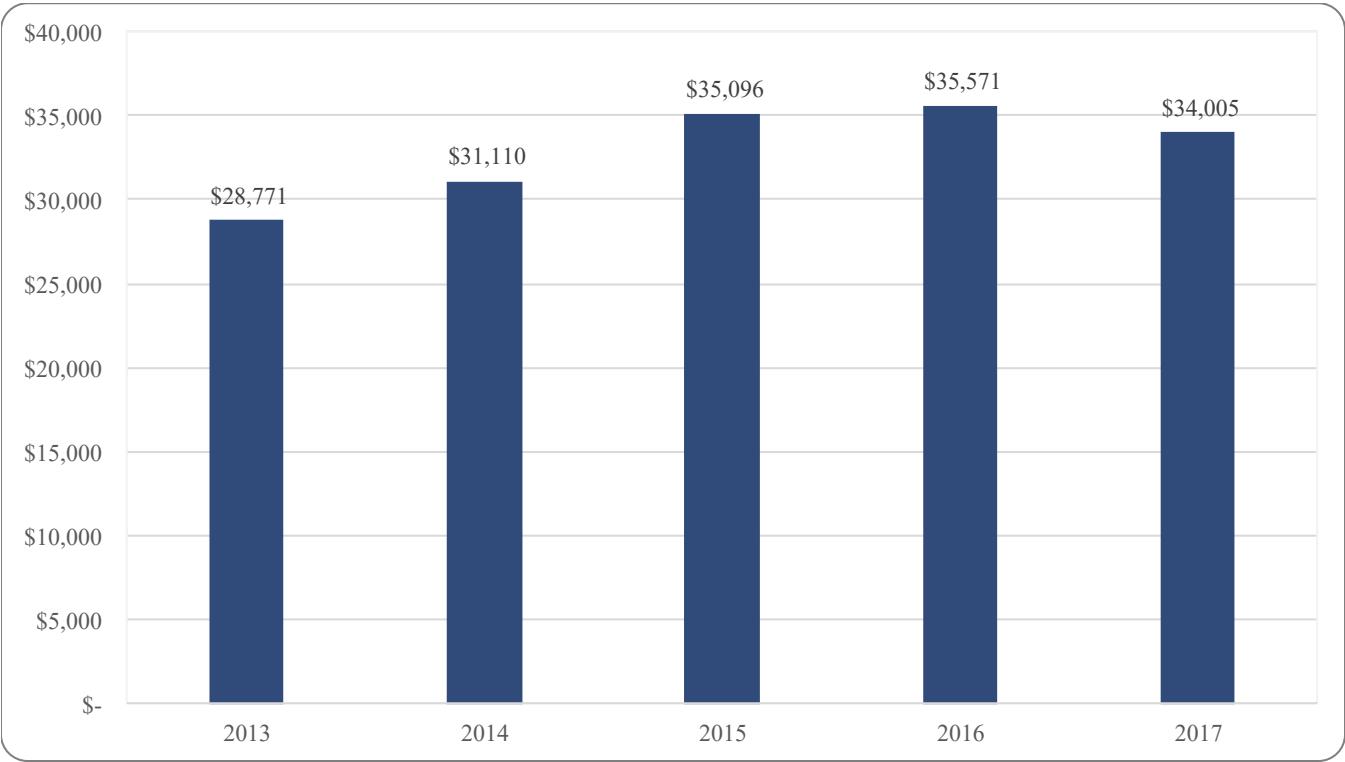
All non-Federal entities that expend \$750,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act. A single audit is intended to provide a cost-effective audit in that one audit is conducted in lieu of multiple audits of individual programs. During 2017 the City expended approximately \$51.4 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, 2013 through December 31, 2017

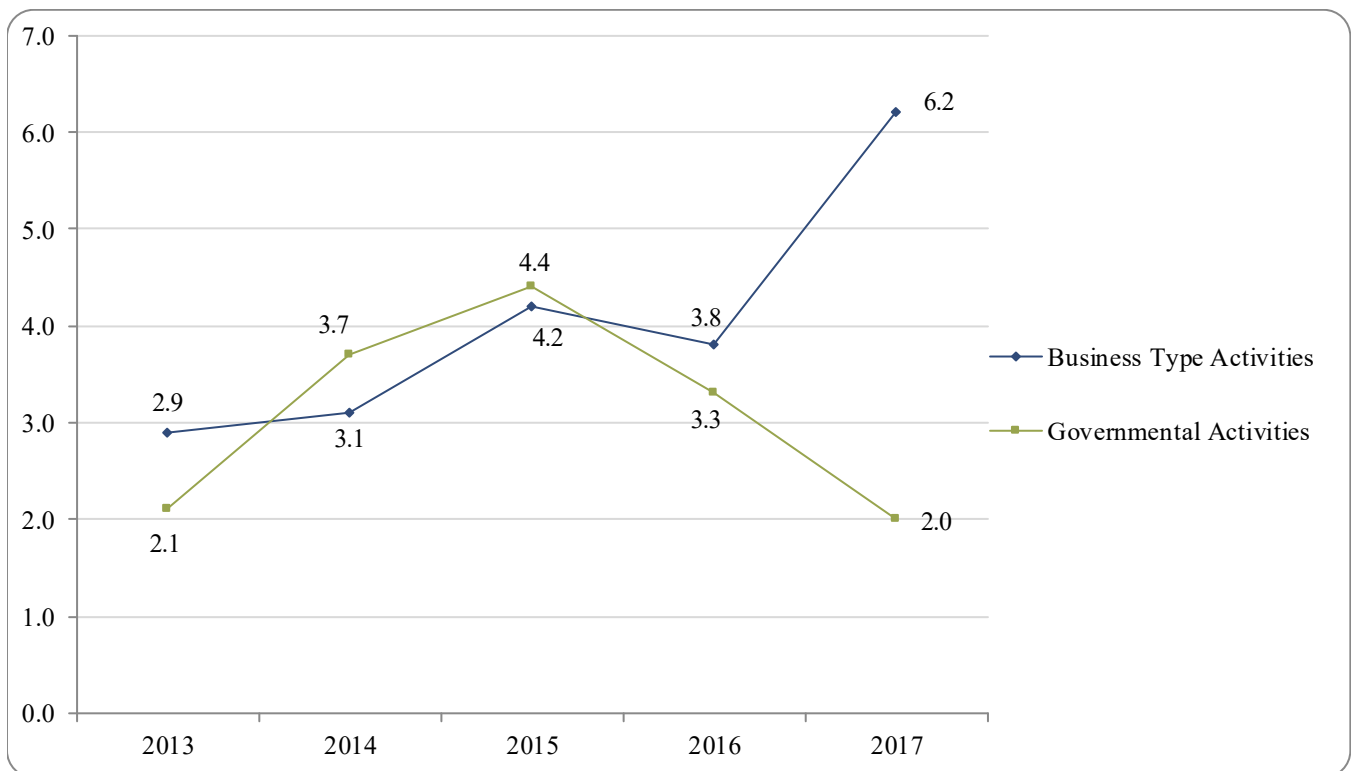
---



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.<sup>1</sup> This comparison was done with the year-end cash and liability position.

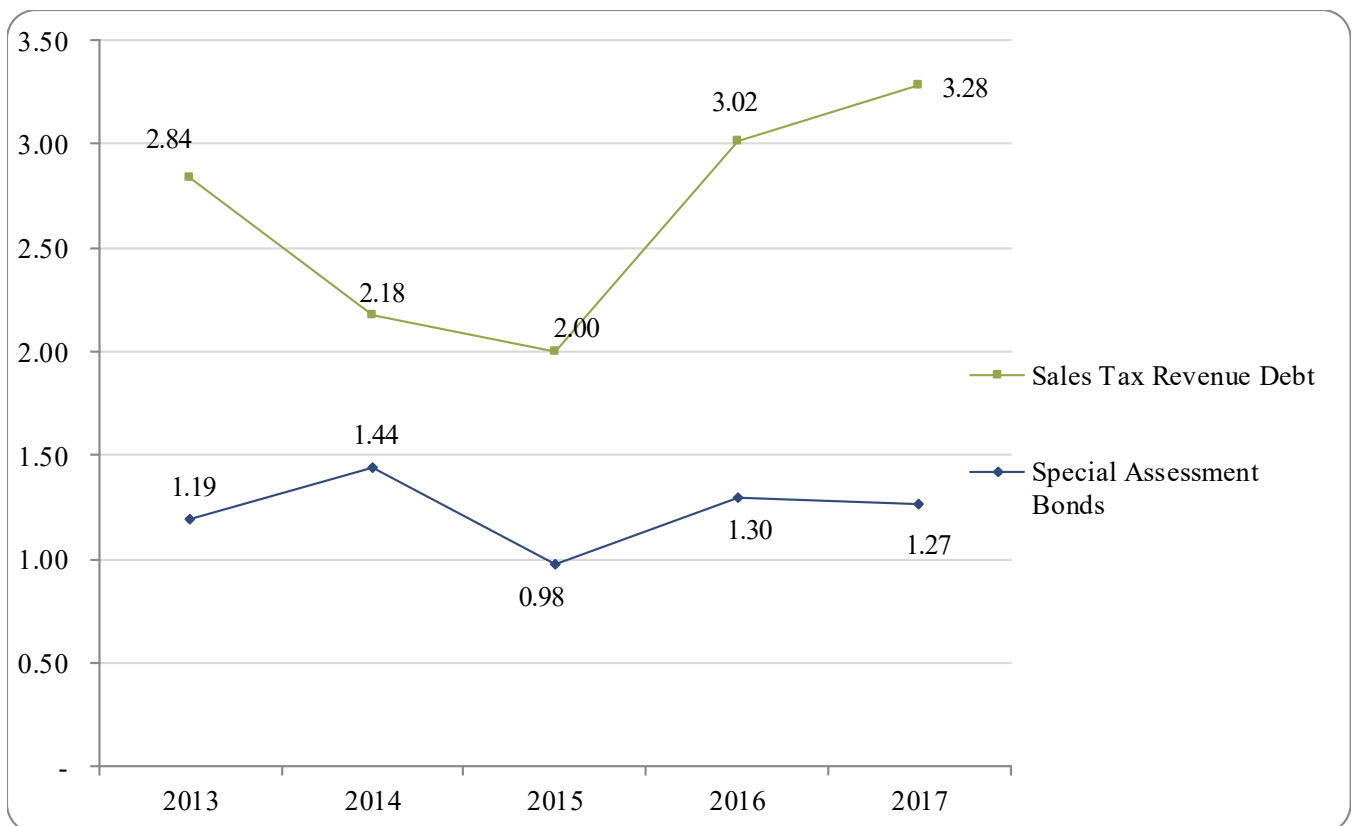
<sup>1</sup> *Evaluating Financial Condition: a Handbook for Local Governments*, page 71

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:

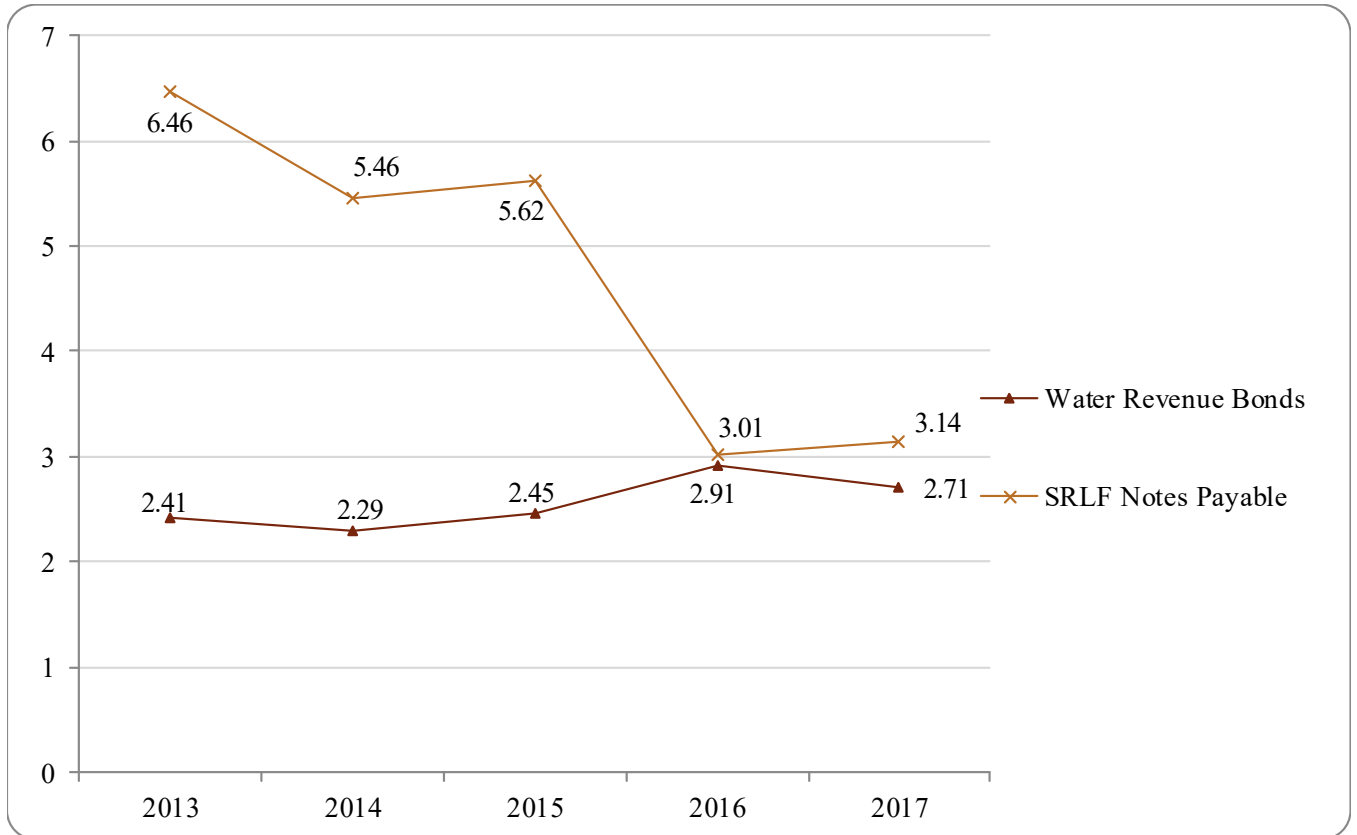
$$\frac{\text{Net Revenue Available for Debt Service}}{\text{Principal + Interest Long-Term Debt Payments}}$$

Governmental Activities<sup>2</sup>:



NOTE: At the end of 2017, there was \$22,850,773 in prepaid special assessments that can be used to make debt service payments.

Business-Type Activities<sup>3</sup>:

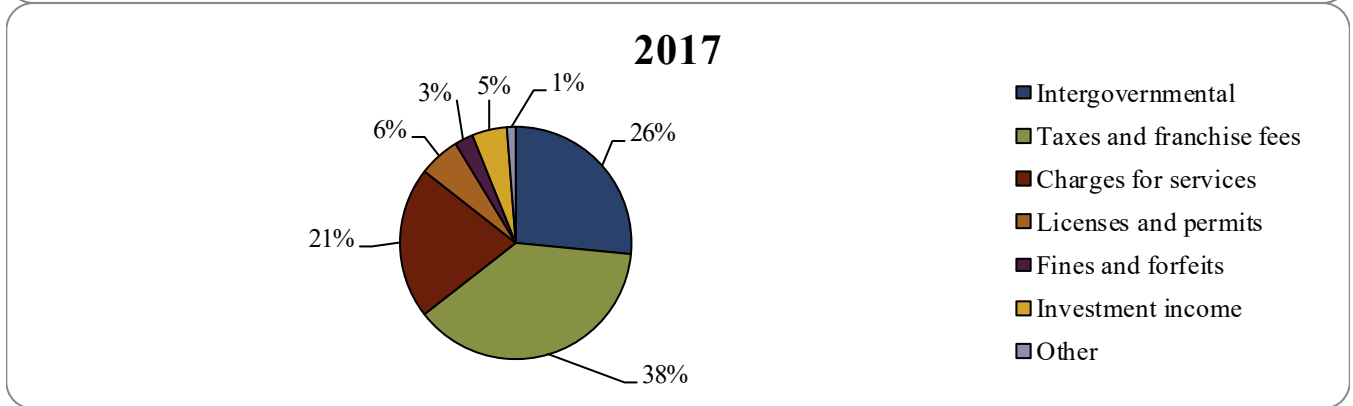
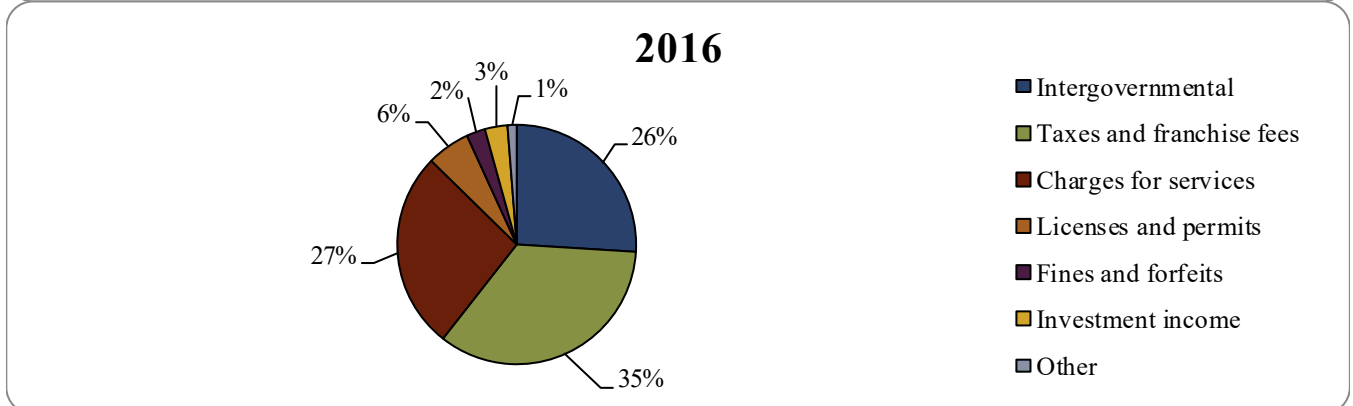
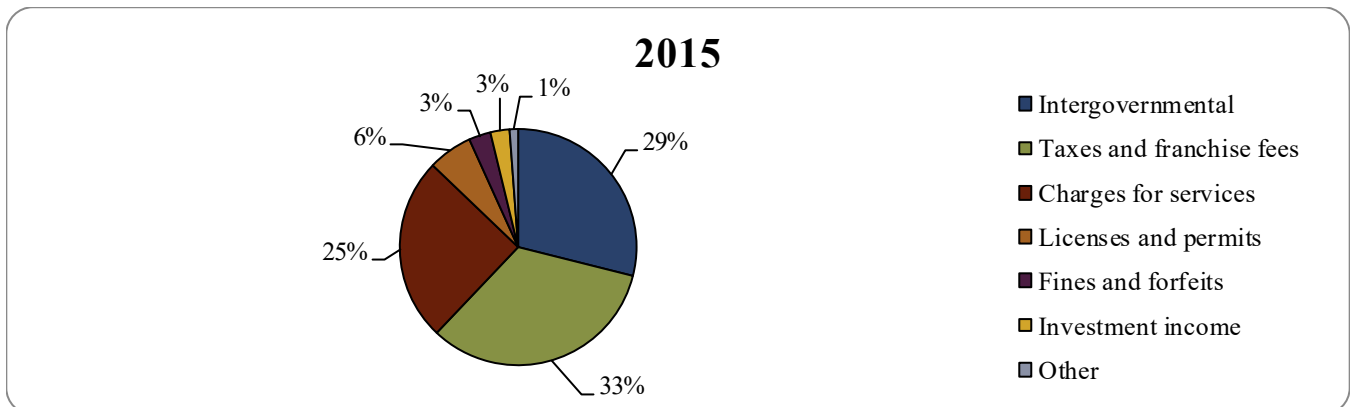


<sup>3</sup> Comprehensive Annual Financial Report for the year ended December 31, 2017, page 156

City of Fargo, North Dakota

General Fund Revenues

Years Ended December 31, 2015 through December 31, 2017

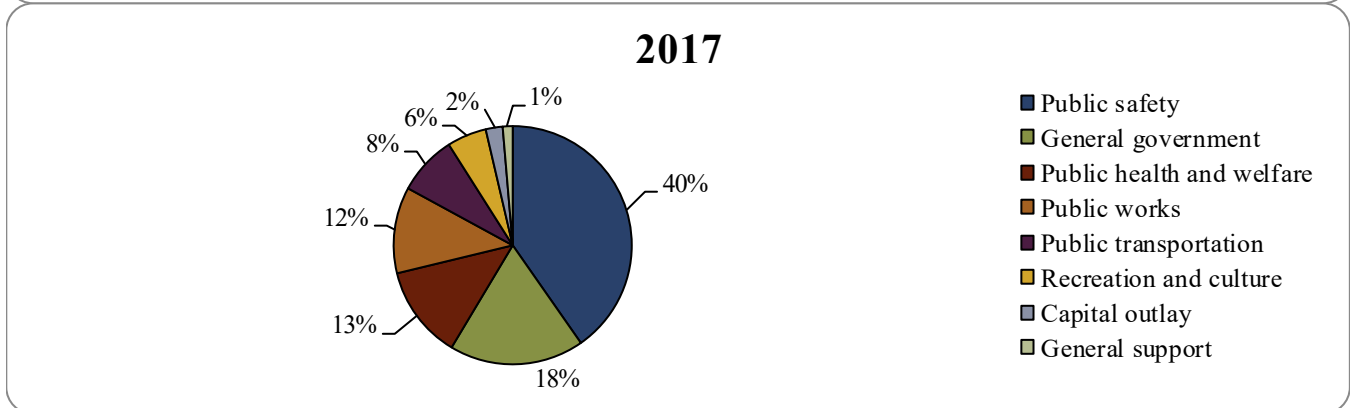
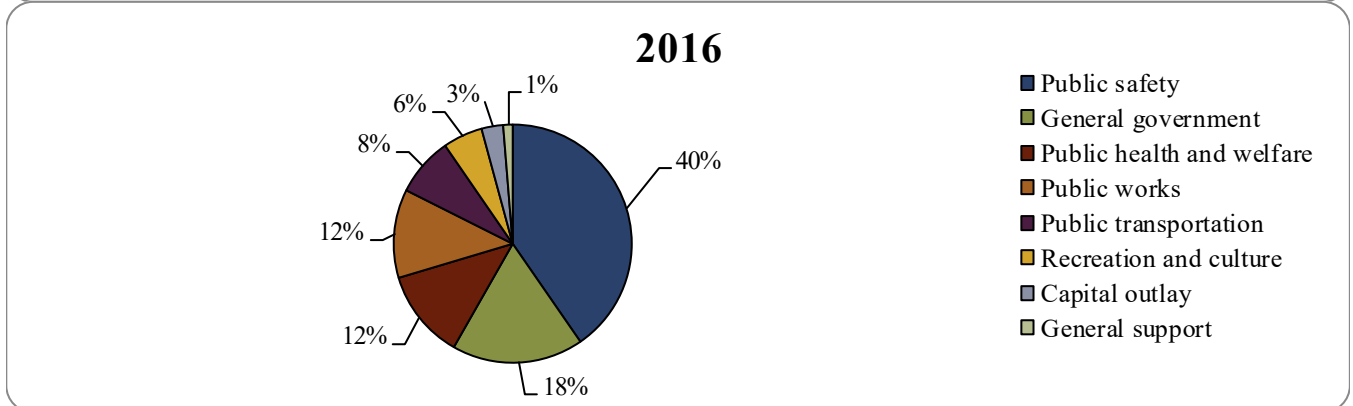
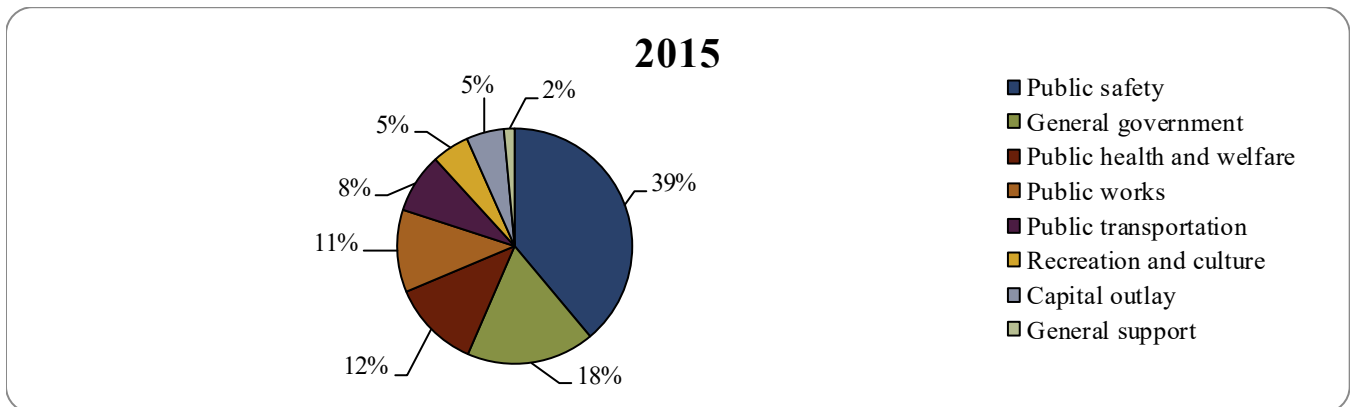


	2015	2016	2017
Taxes and franchise fees	\$ 27,213,243	\$ 28,702,567	\$ 30,690,365
Intergovernmental	23,737,000	21,543,645	21,434,863
Charges for services	20,609,014	22,161,433	17,042,076
Licenses and permits	4,990,708	4,832,453	4,628,182
Investment income	2,143,968	2,525,865	3,942,045
Fines and forfeits	2,443,652	2,121,582	2,104,662
Other	952,969	1,030,903	991,212
Total	\$ 82,090,554	\$ 82,918,448	\$ 80,833,405

City of Fargo, North Dakota

General Fund Expenditures

Years Ended December 31, 2015 through December 31, 2017



	2015	2016	2017
Public safety	\$ 33,326,475	\$ 35,804,818	\$ 36,823,018
General government	15,087,608	15,850,432	16,709,859
Public health and welfare	10,412,765	10,762,458	11,533,635
Public works	9,716,904	10,662,455	10,710,691
Public transportation	7,031,084	7,092,990	7,374,024
Recreation and culture	4,390,993	4,770,797	4,896,092
Capital outlay	4,425,376	2,611,766	2,094,902
General support	1,279,711	1,135,179	1,235,095
<b>Total</b>	<b>\$ 85,670,916</b>	<b>\$ 88,690,895</b>	<b>\$ 91,377,316</b>



City of Fargo, North Dakota  
Budget to Actual – General Fund  
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 30,923,500	\$ 30,491,500	\$ 30,690,365	\$ 198,865
Licenses and permits	4,790,000	4,900,850	4,628,182	(272,668)
Intergovernmental revenues	19,777,070	21,006,811	21,434,863	428,052
Charges for services	17,637,863	17,551,288	17,042,076	(509,212)
Fines and forfeits	2,536,500	2,536,500	2,104,662	(431,838)
Investment income	3,129,000	3,129,000	3,942,045	813,045
Miscellaneous Revenue	921,067	977,467	991,212	13,745
Total revenues	<u>79,715,000</u>	<u>80,593,416</u>	<u>80,833,405</u>	<u>239,989</u>
				<i>0.3%</i>
				<i>Positive</i>
<b>Expenditures</b>				
General government	16,817,825	16,795,005	16,709,859	85,146
Public safety	36,998,992	37,297,091	36,823,018	474,073
Public works	11,592,068	11,287,303	10,710,691	576,612
Public health and welfare	10,497,727	11,603,560	11,533,635	69,925
Recreation and culture	4,847,818	4,898,848	4,896,092	2,756
Public transportation	8,326,384	7,814,299	7,374,024	440,275
General support	1,212,176	1,630,132	1,151,575	478,557
Capital outlay	3,045,300	4,296,926	2,094,902	2,202,024
<b>Debt Service:</b>				
Principal	75,831	75,831	75,831	-
Interest and fiscal charges	7,689	7,689	7,689	-
Total expenditures	<u>93,421,810</u>	<u>95,706,684</u>	<u>91,377,316</u>	<u>4,329,368</u>
				<i>4.5%</i>
				<i>Positive</i>
<b>Revenues Over (Under) Expenditures</b>	<b>(13,706,810)</b>	<b>(15,113,268)</b>	<b>(10,543,911)</b>	<b>4,569,357</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	11,866,000	12,266,000	11,778,132	(487,868)
Transfer out	(2,284,190)	(2,906,966)	(2,826,851)	80,115
Capital lease	-	-	42,700	42,700
Total other financing sources (uses)	<u>9,581,810</u>	<u>9,359,034</u>	<u>8,993,981</u>	<u>(365,053)</u>
<b>Net Change in Fund Balance</b>	<b><u>\$ (4,125,000)</u></b>	<b><u>\$ (5,754,234)</u></b>	<b>(1,549,930)</b>	<b><u>\$ 4,204,304</u></b>
Fund Balance - Beginning			<u>39,396,504</u>	
Fund Balance - Ending			<u>\$ 37,846,574</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

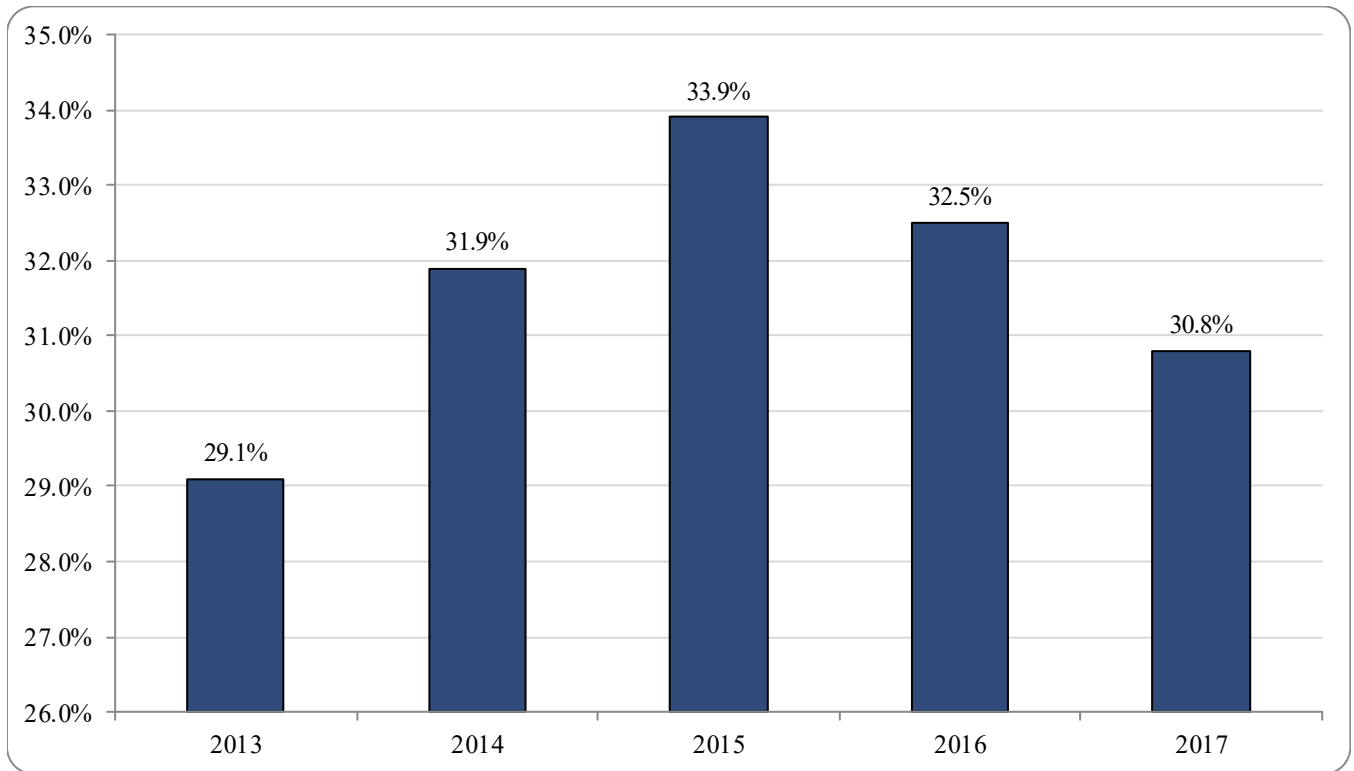
The Government Finance Officers Association (GFOA) encourages local governments to adopt a policy on the fund balance in the general fund such that the unrestricted (committed, assigned, and unassigned) portion of fund balance is maintained at no less than 5 to 15 percent.<sup>4</sup>

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.<sup>5</sup>

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

<sup>5</sup> *City of Fargo 2017 Comprehensive Annual Financial Report*, page 39

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



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

2013	2014	2015	2016	2017
\$ 22,428,922	\$ 25,881,011	\$ 29,041,175	\$ 28,854,936	\$ 28,099,032

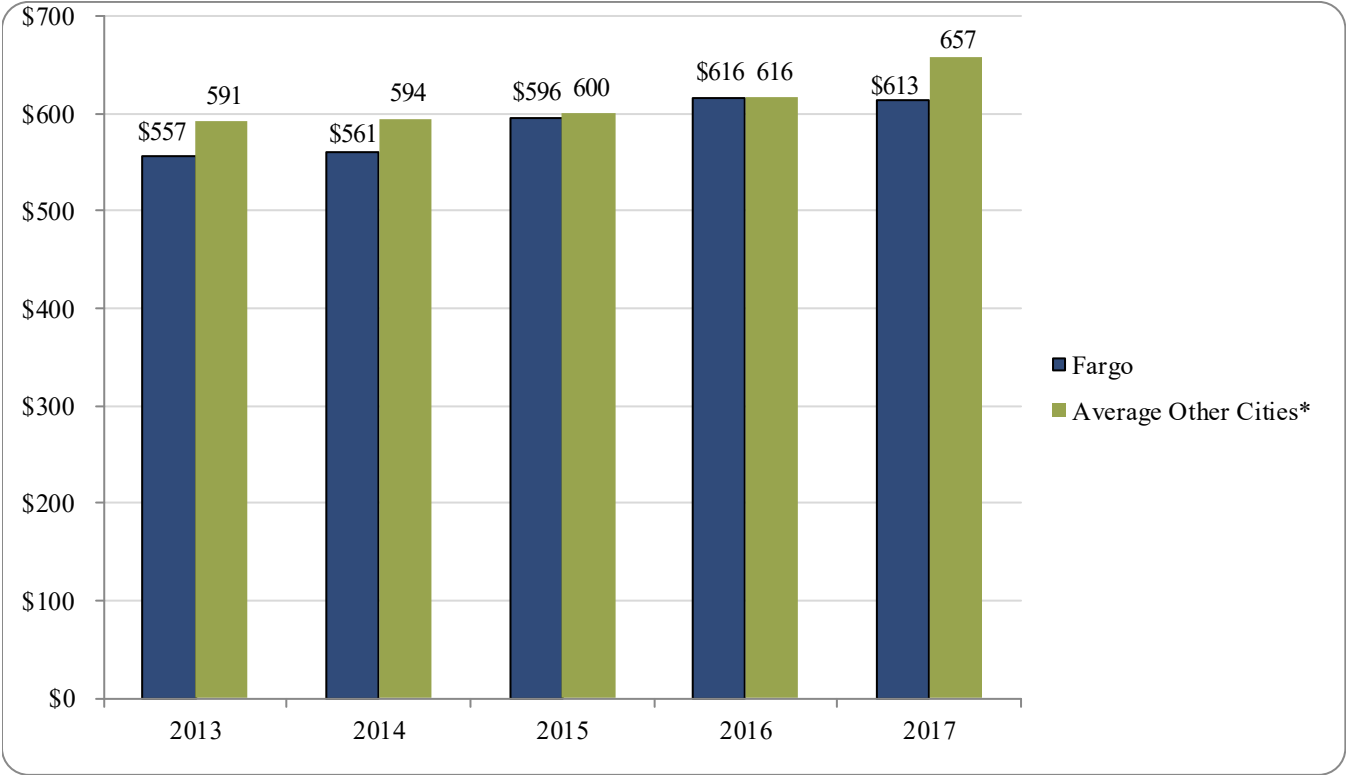
Calculating the operating expenditures of the City’s general fund relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should 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:

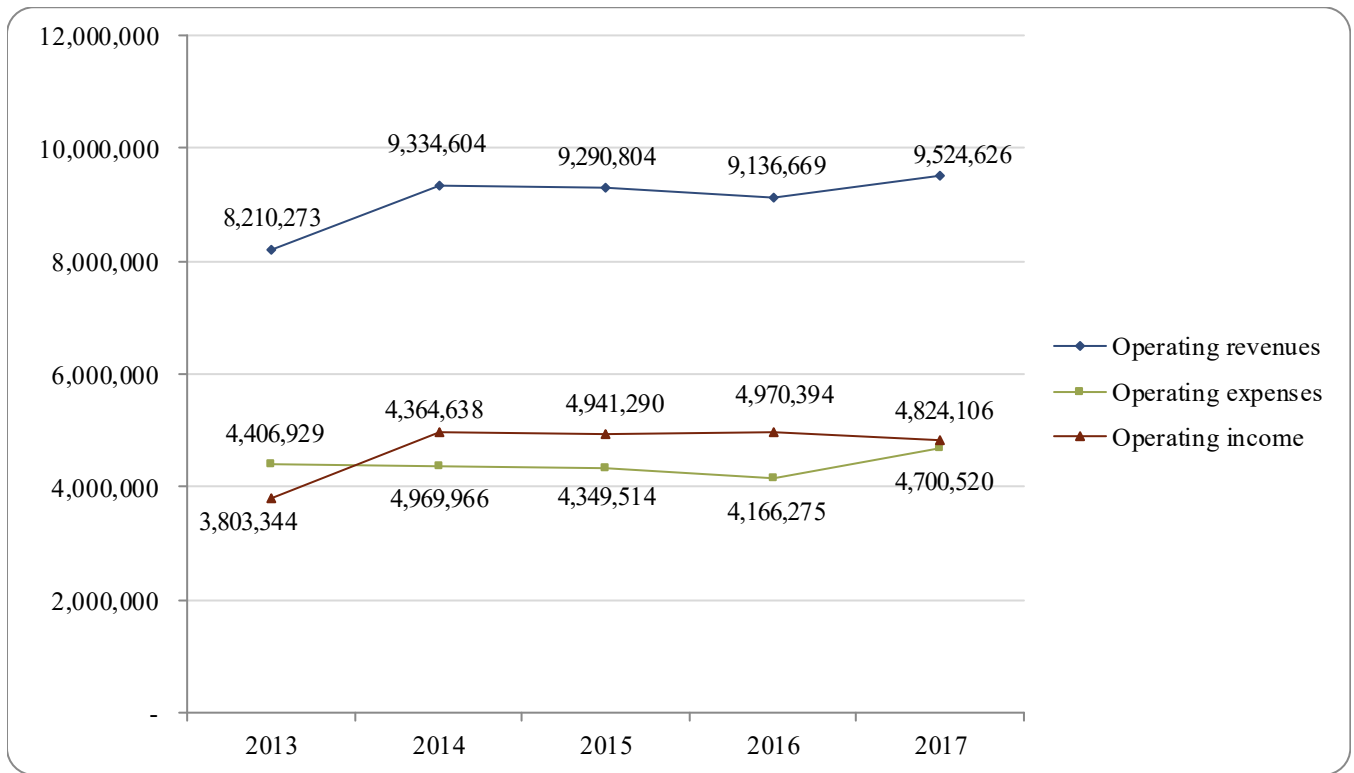
$$\frac{\text{Operating expenditures (constant dollars)}}{\text{Population}}$$

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 2013 – 2017 was 2.01% per year.**

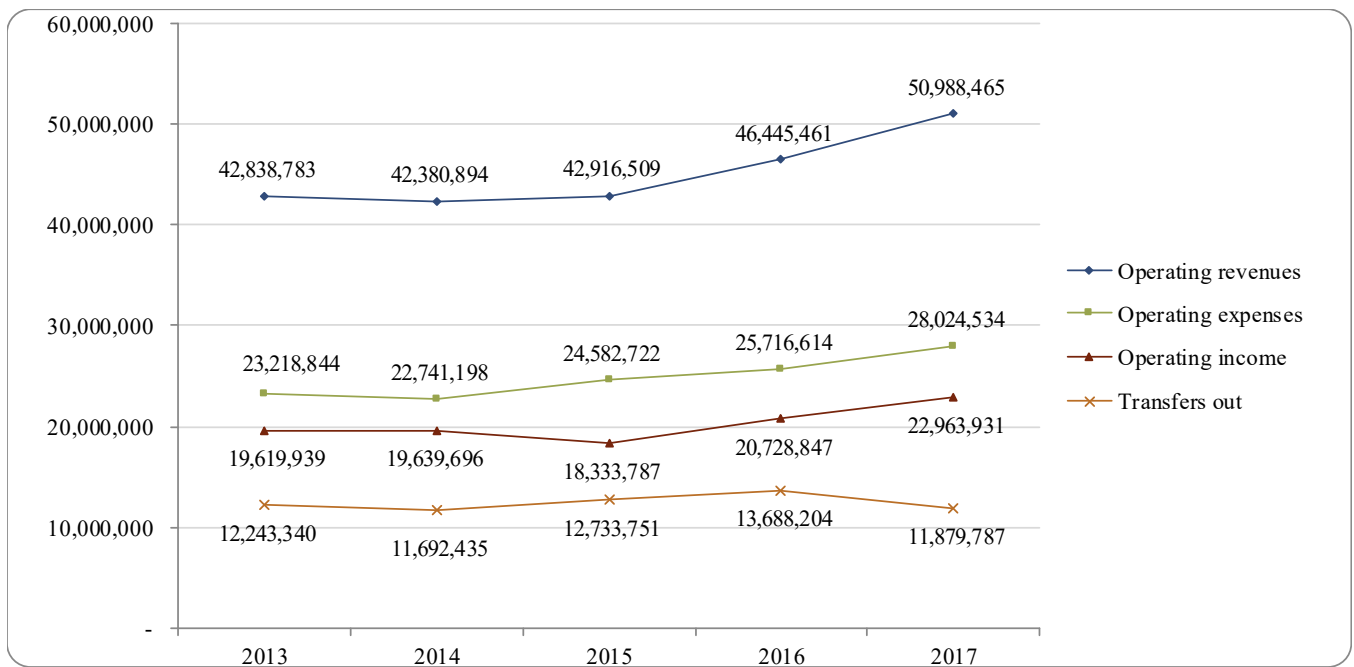
\*Average Other Cities includes information available within CAFR data on the City of Bismarck, Sioux Falls, Grand Forks, and Minot’s websites. NOTE: For 2017 Bismarck and Grands Forks CAFR information was not available therefore both cities were excluded.



**Operating revenues** consist of charges for services and general property taxes. Average increase in this item from 2013 – 2017 was 3.20% 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 2013 – 2017 was 1.33% per year.

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



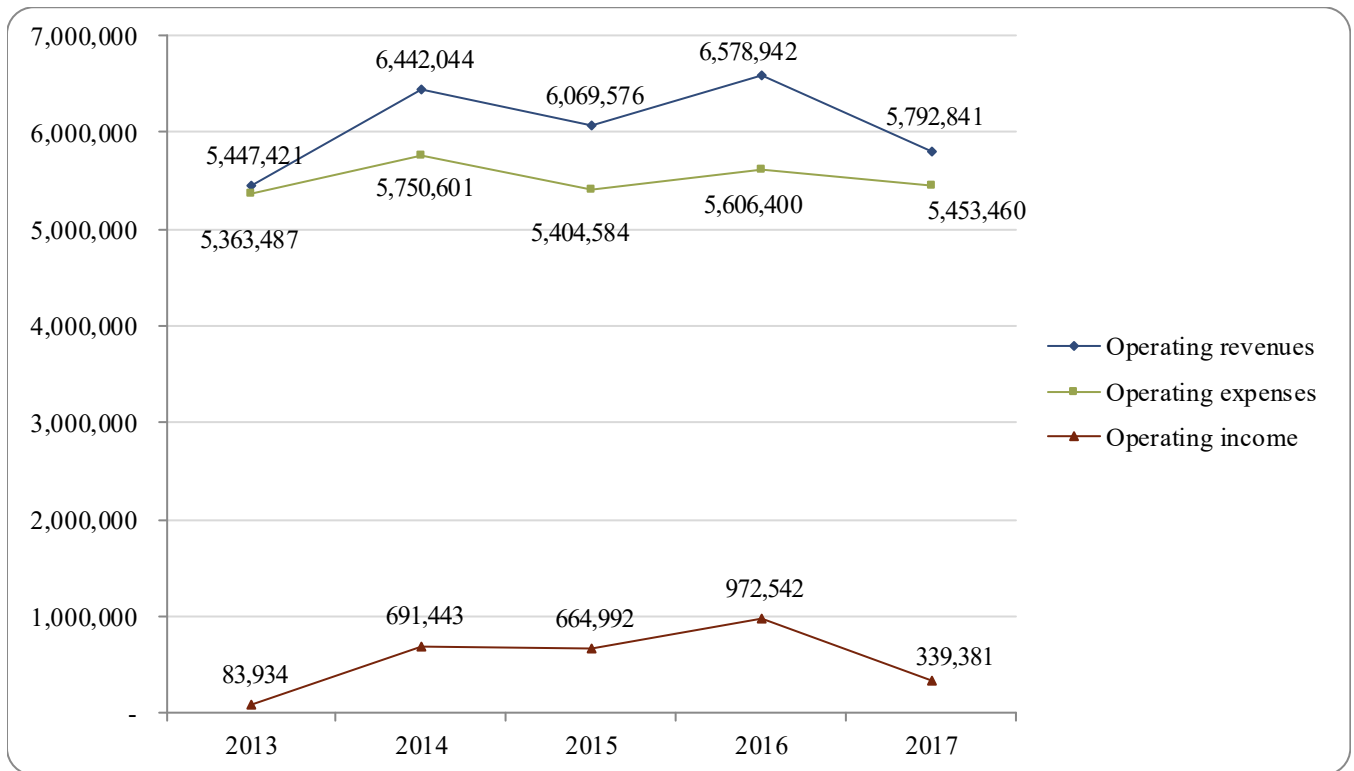
This represents the Water, Wastewater, Storm Sewer, and Solid Waste funds.

**Operating revenues** consist of charges for services. Average increase in this item from 2013 – 2017 was 3.80% 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 2013 – 2017 was 4.14% 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.

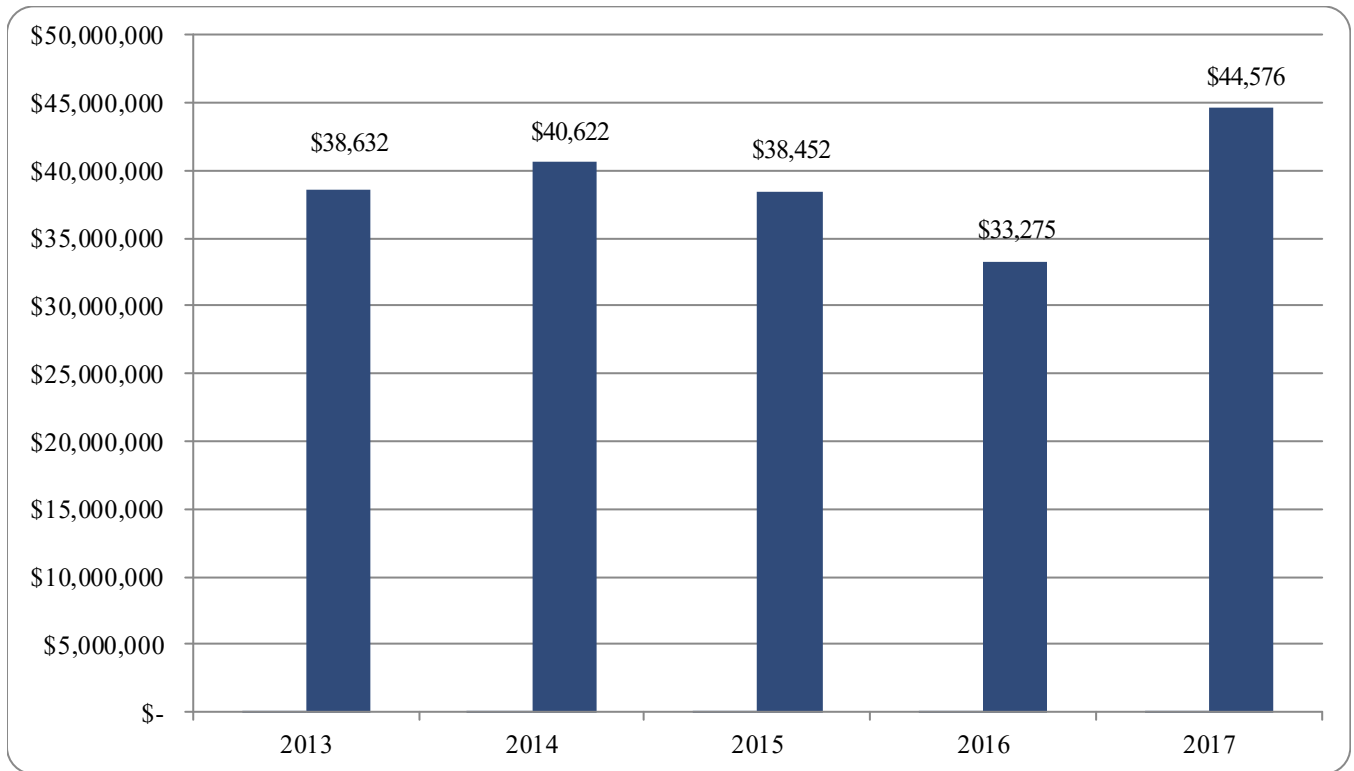


**Operating revenues** consist of charges for services. Average increase in this item from 2013 – 2017 was 1.27% per year.

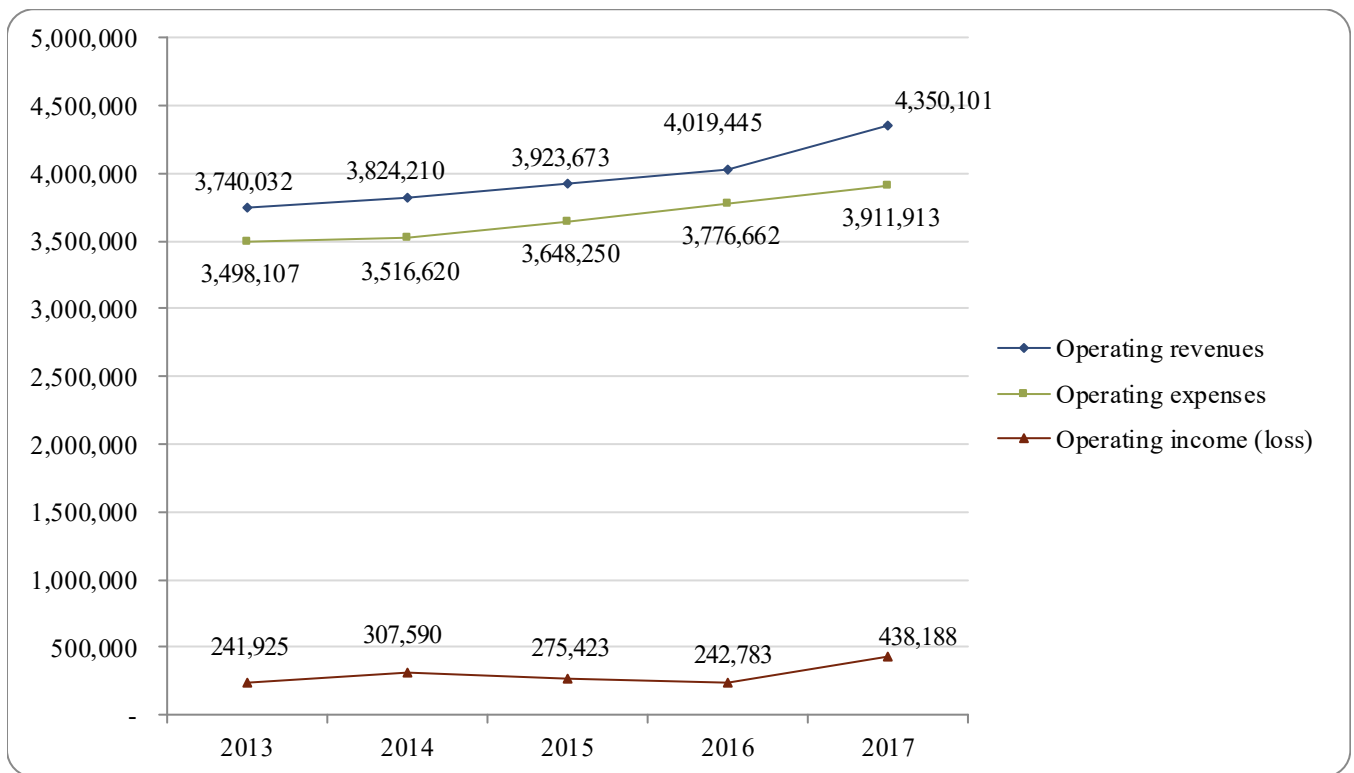
**Operating expenses** consist of salaries and benefits and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2013 – 2017 was 0.34% per year.

**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 five years is as follows:





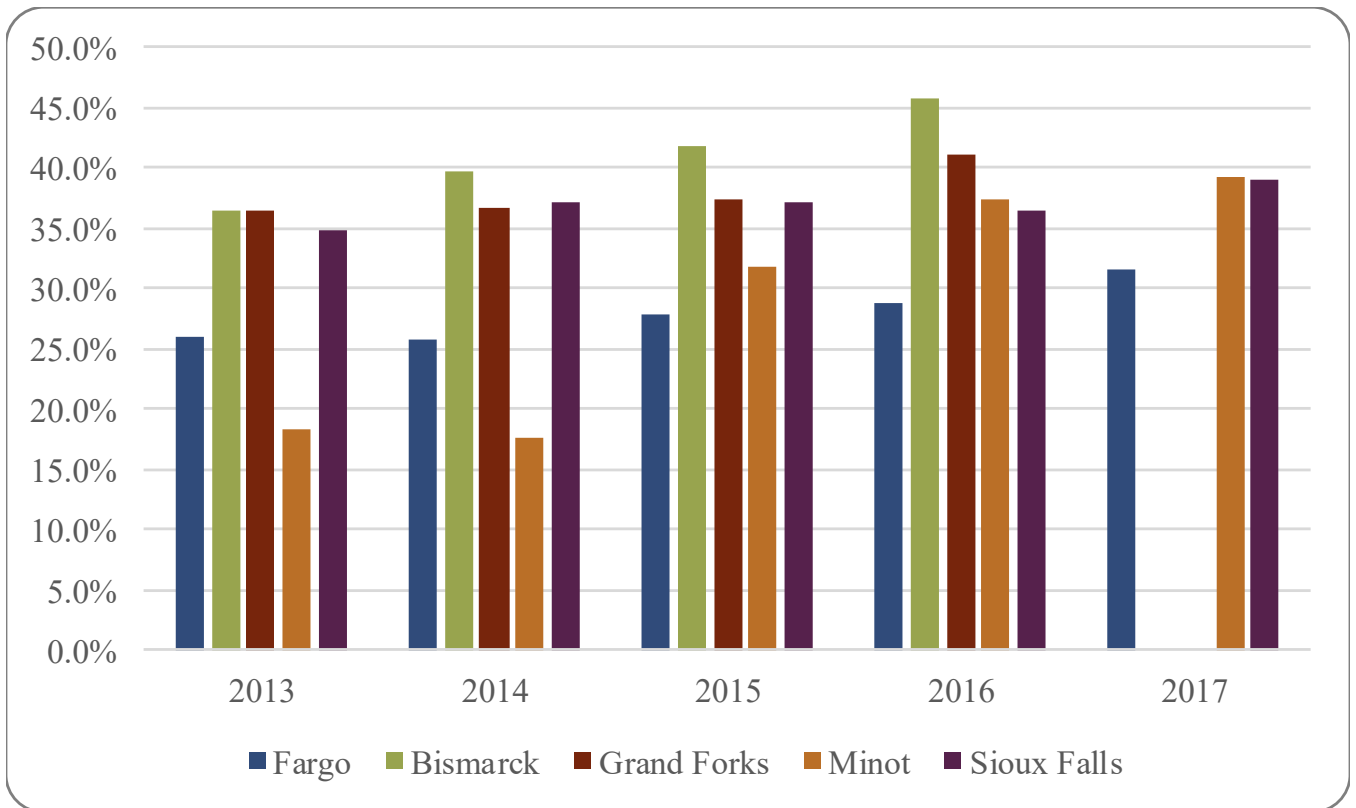


This represents the Southeast Cass Sewer, Vector Control, Street Lighting and Forestry funds.

**Operating revenues** consist of charges for services. Average increase in this item from 2013 – 2017 was 3.26% 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 2013 – 2017 was 2.37% 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 2013 – 2017.

\*Note: 2017 Bismarck and Grand Forks CAFR’s were not available.

City of Fargo, North Dakota  
Property Tax – General Fund  
Years Ended December 31, 2013 through December 31, 2017

	<b>Fargo</b>	<b>Bismarck</b>	<b>Grand Forks</b>	<b>Minot</b>	<b>Sioux Falls</b>
<b>2013</b>	26.0%	36.5%	36.4%	18.3%	34.8%
<b>2014</b>	25.8%	39.6%	36.7%	17.5%	37.1%
<b>2015</b>	27.8%	41.8%	37.4%	31.7%	37.1%
<b>2016</b>	28.7%	45.7%	41.2%	37.3%	36.5%
<b>2017</b>	31.6%			39.3%	39.1%

\*Note: 2017 Bismarck and Grand Forks CAFR's were not available.

Property tax amounts per City:

	<b>Fargo</b>	<b>Bismarck</b>	<b>Grand Forks</b>	<b>Minot</b>	<b>Sioux Falls</b>
<b>2013</b>	\$ 20,793,070	\$ 10,044,252	\$ 12,461,713	\$ 4,504,472	\$ 48,547,852
<b>2014</b>	\$ 21,507,831	\$ 12,463,045	\$ 13,539,639	\$ 4,720,060	\$ 51,025,183
<b>2015</b>	\$ 22,779,266	\$ 12,847,186	\$ 13,644,445	\$ 7,858,702	\$ 53,344,081
<b>2016</b>	\$ 23,782,357	\$ 14,906,928	\$ 14,432,203	\$ 8,857,271	\$ 55,003,521
<b>2017</b>	\$ 25,547,398			\$ 9,700,289	\$ 60,858,378

General Fund total revenues per City:

	<b>Fargo</b>	<b>Bismarck</b>	<b>Grand Forks</b>	<b>Minot</b>	<b>Sioux Falls</b>
<b>2013</b>	\$ 79,972,799	\$ 27,529,455	\$ 34,281,315	\$ 24,565,848	\$ 139,687,321
<b>2014</b>	\$ 83,294,401	\$ 31,447,807	\$ 36,886,352	\$ 26,904,988	\$ 137,738,370
<b>2015</b>	\$ 82,090,554	\$ 30,722,359	\$ 36,501,831	\$ 24,789,564	\$ 143,934,569
<b>2016</b>	\$ 82,918,448	\$ 32,641,852	\$ 35,041,007	\$ 23,751,660	\$ 150,883,746
<b>2017</b>	\$ 80,833,405			\$ 24,679,025	\$ 155,598,524

City of Fargo, North Dakota  
 Schedule of Federal Expenditures  
 Year Ended December 31, 2017

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients
<b>Department of Agriculture</b>				
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	G15.880A & G17.452	537,720	
Total Department of Agriculture				537,720
<b>Department of Housing and Urban Development</b>				
<i>Direct Federal Funding:</i>				
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	N/A	866,908	533,539
Home Investment Partnerships Program	14.239	N/A	385,162	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Division of Community Services Community Development Block Grants/State's Program	14.228	2457-NSP09	87,488	
Emergency Solutions Grant Program	14.231	4017-ESG16 & 4211-ESG17	30,281	
Total Department of Housing and Urban Development				1,369,839 533,539
<b>Department of the Interior</b>				
<i>Indirect Federal Funding passed through-</i>				
North Dakota State Historical Society Historic Preservation Fund Grants In-Aid	15.904	38-2016-141296-27	420	
Total Department of the Interior				420
<b>Department of Justice</b>				
<i>Direct Federal Funding:</i>				
Public Safety Partnership and Community Policing Grants	16.710	N/A	82,325	
<i>Indirect Federal Funding passed through-</i>				
Cass County Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-H3010-ND-DJ	41,302	9,750
State of North Dakota Office of Attorney General Edward Byrne Memorial Justice Assistance Grant Program	16.738	16217	9,750	
CFDA subtotal			51,052	
Total Department of Justice				139,777 9,750

City of Fargo, North Dakota  
 Schedule of Federal Expenditures  
 Year Ended December 31, 2017

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients
<b>Department of Transportation</b>				
<i>Direct Federal Funding:</i>				
Airport Improvement Program	20.106	N/A	5,824,073	
Federal Transit Capital Investment Grants	20.500	N/A	1,989	
Federal Transit Formula Grants	20.507	N/A	2,397,121	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Transportation Bus and Bus Facilities Formula Program Total Federal Transit Cluster	20.526	38150106B & 38171124	<u>219,919</u>	2,619,029
Transit Services Program Cluster Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	38161174	128,000	
Highway Safety Cluster National Priority Safety Programs	20.616	PHSPOP1705-05-09, PHSPID1710-02-08, PHSPID1710-12-04, PHSPDD1711-02-04, PHSPID1710-03-02, PHSPOP1805-05- 06, PHSPID1810-02-05, & PHSPID1810-12-02	<u>57,944</u>	
Total Department of Transportation				8,629,046
<b>Environmental Protection Agency</b>				
<i>Direct Federal Funding:</i>				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	72,540	
<i>Indirect Federal Funding passed through-</i>				
North Dakota Department of Health Capitalization Grants for Clean Water State Revolving Funds	66.458	380715-02	912,590	
Clean Water State Revolving Funds Cluster Capitalization Grants for Drinking Water State Revolving Funds	66.468	0900336-03	<u>33,866,080</u>	
Performance Partnership Grants	66.605	G13.1245, G15.820, & G17.305	<u>1,592</u>	
Total Environmental Protection Agency				34,852,802

City of Fargo, North Dakota  
 Schedule of Federal Expenditures  
 Year Ended December 31, 2017

	CFDA Numbers	Agency or Pass Through Number	Expenditures	Amounts Passed- Through to Subrecipients	
<b>Department of Health and Human Services</b>					
<i>Indirect Federal Funding passed through-</i>					
North Dakota Department of Health					
Public Health Emergency Preparedness	93.069	G15.729B, G15.764, 15.716, G17.016, G17.040, & G17.066	449,663		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	PF15.261	23,955	25,219	
Family Planning Services	93.217	G15.672 & G17.222	171,424		
Immunization Cooperative Agreements	93.268	15.1017	8,582		
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	15.1097	2,000		
PPHF Capacity Building Assistance to Strengthen Public Health Immunization	93.539	15.1017 & G17.300	82,298		
Cancer Prevention and Control Programs	93.752	PF15.207	64,807		
Preventive Health and Health Services Block Grant funded solely with PPHF	93.758	G15.943, G15.954, G17.427, & G17.441	30,217		
Cancer Prevention and Control Programs	93.898	PF17.029	30,650		
HIV Care Formula Grants	93.917	PF15.152B & G15-1063	270,799		
HIV Prevention Activities Health Department Based	93.940	PF15.275 & G17.569	54,874		
Maternal and Child Health Services Block Grant to the States	93.994	G15.541A, G17.222, & G17.435	153,233	5,712	
Lutheran Social Services					
Refugee and Entrant Assistance Discretionary Grants	93.576	90RX0245-03 & 2018-HP-3	24,189		
Total Department of Health and Human Services				1,366,691	30,931
<b>Department of Homeland Security</b>					
<i>Indirect Federal Funding passed through-</i>					
State of North Dakota Department of Emergency Services					
Hazard Mitigation Grant	97.039	FEMA-1981-DR-30-R & FEMA-1981-DR-9-R	4,219,458		
Homeland Security Grant Program	97.067	14, 14, 15, 35, 36, 48, 91, & 92	243,769		
Cass County					
Emergency Management Performance Grants	97.042	9 & 9	59,637		
Total Department of Homeland Security				4,522,864	
<b>Total Expenditures of Federal Awards</b>			<u>\$ 51,419,159</u>	<u>\$ 574,220</u>	