



Executive Summary
December 31, 2014

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.

We obtained the idea of an executive summary format based on a review of the Comprehensive Annual Financial Report (CAFR) of the City of Sioux Falls, South Dakota, done by the Internal Audit department of the City in May 2009.

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.

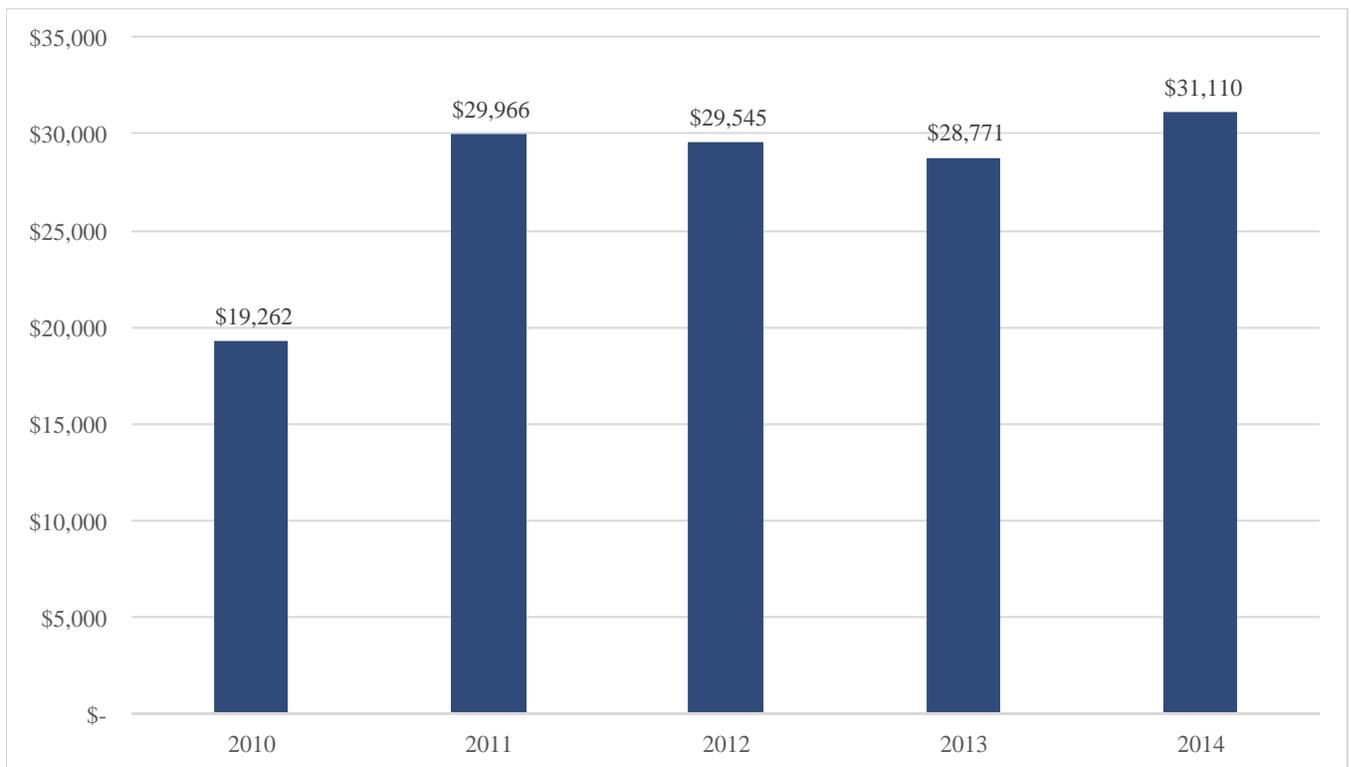
Audit of Federal Funds

All non-Federal entities that expend \$500,000 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 2014 the City expended approximately \$14.8 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, 2010 through December 31, 2014



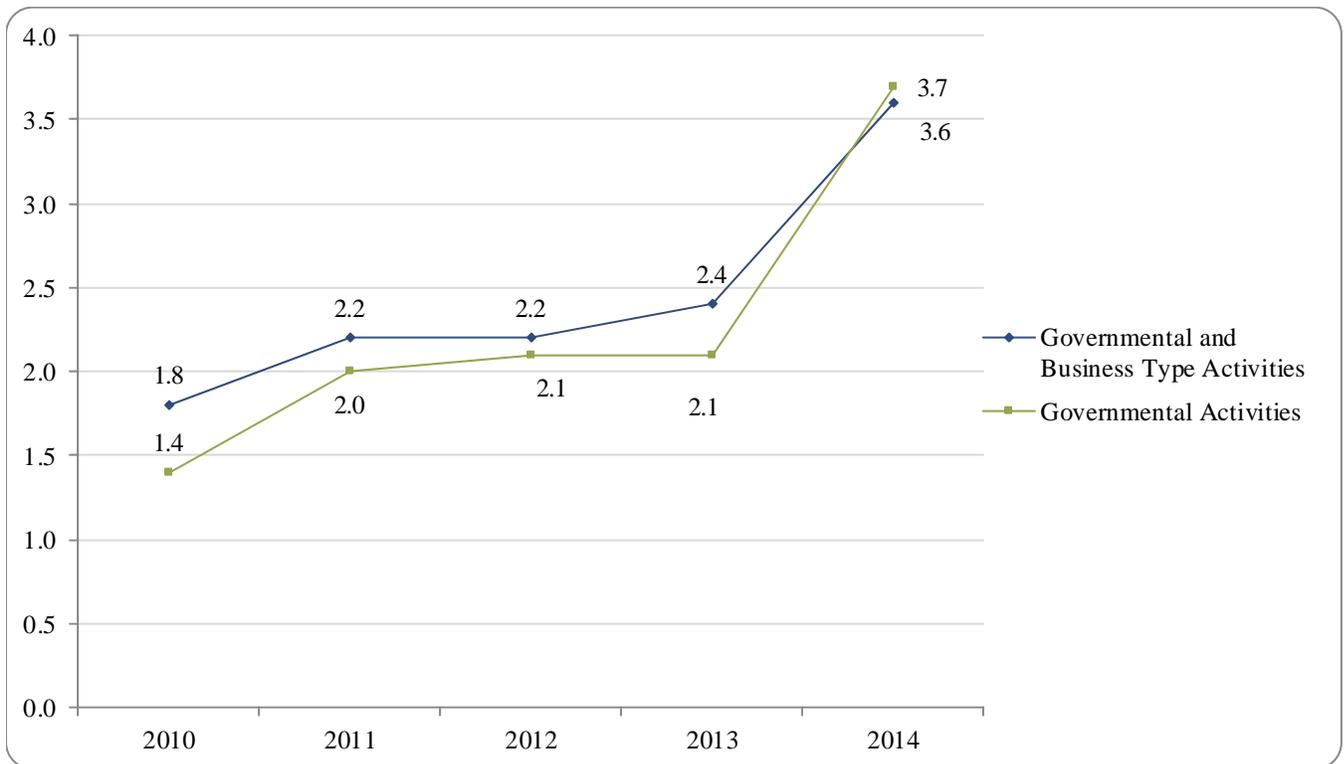
In 2011, implementation of GASB 54 resulted in many funds being reclassified from Special Revenue funds into the General Fund. Of the cash balance increase noted above between 2010 and 2011, \$3 million of the increase is a result of the Revenue Stabilization Fund being combined into the General Fund beginning in 2011. In addition, \$4 million of the increase from 2010 to 2011 is the result of increased funding for State Aid and Municipal Highway Funding.

NOTE: As of 12/31/11, the City began accounting for fund balance in accordance with GASB 54. As a result of this change, some comparisons in prior year figures may not be consistent.

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.

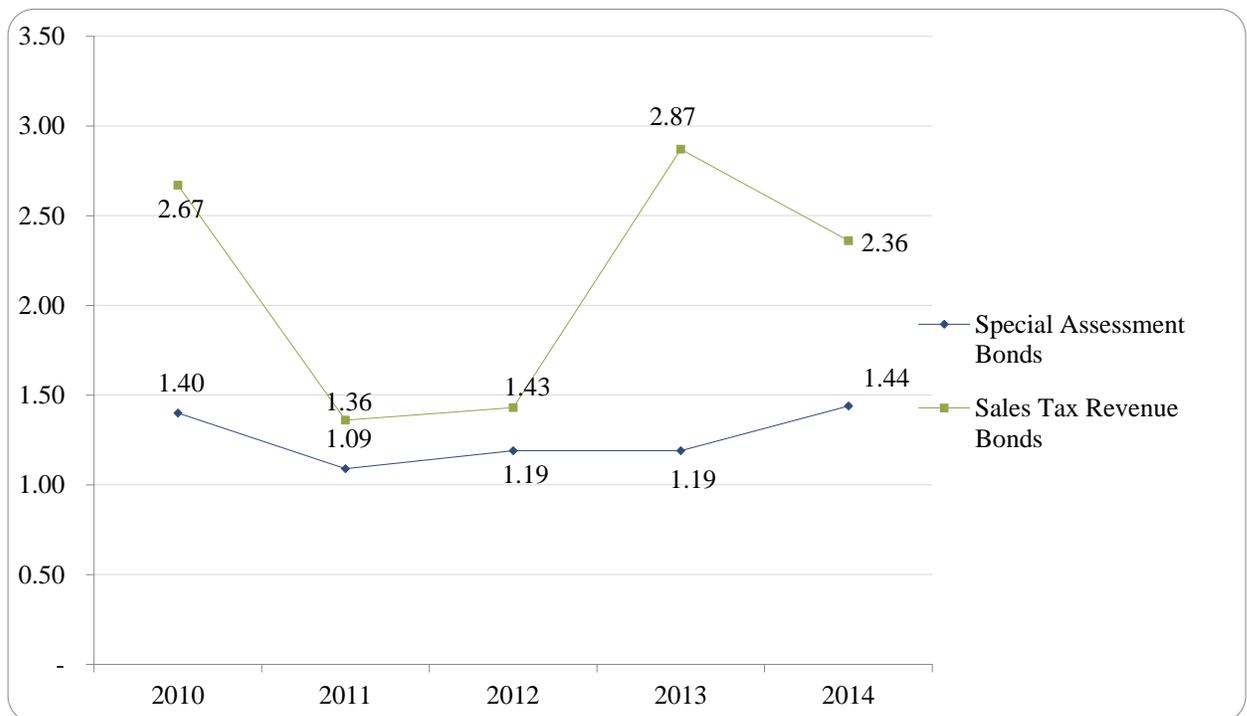
¹ *Evaluating Financial Condition: a Handbook for Local Governments*, page 71

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:

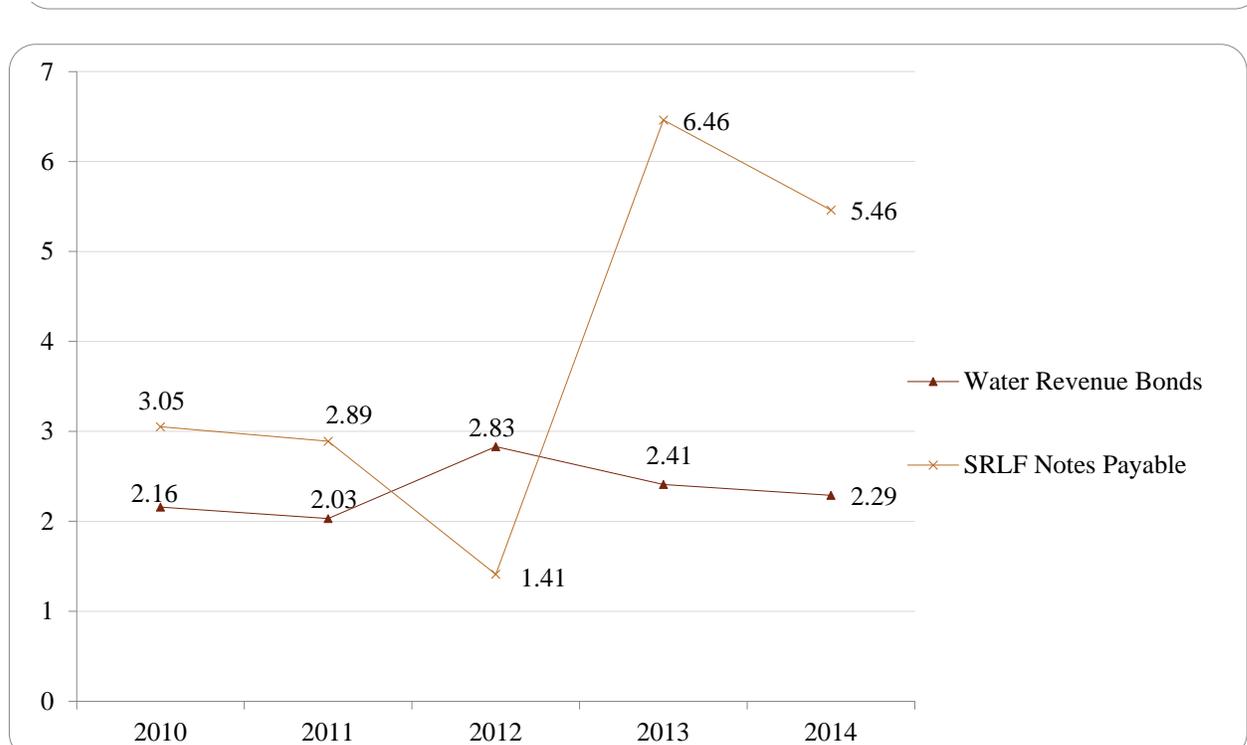
$$\frac{\text{Net Revenue Available for Debt Service}}{\text{Principal + Interest Long-Term Debt Payments}}$$

Governmental Activities²:



NOTE: At the end of 2014, there was \$30,263,636 in prepaid special assessments that can be used to make debt service payments.

Business-Type Activities³:

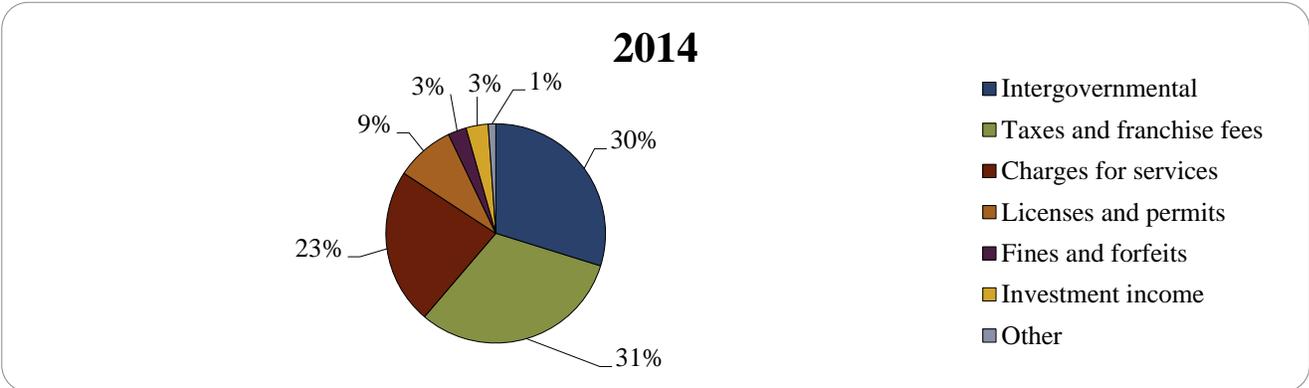
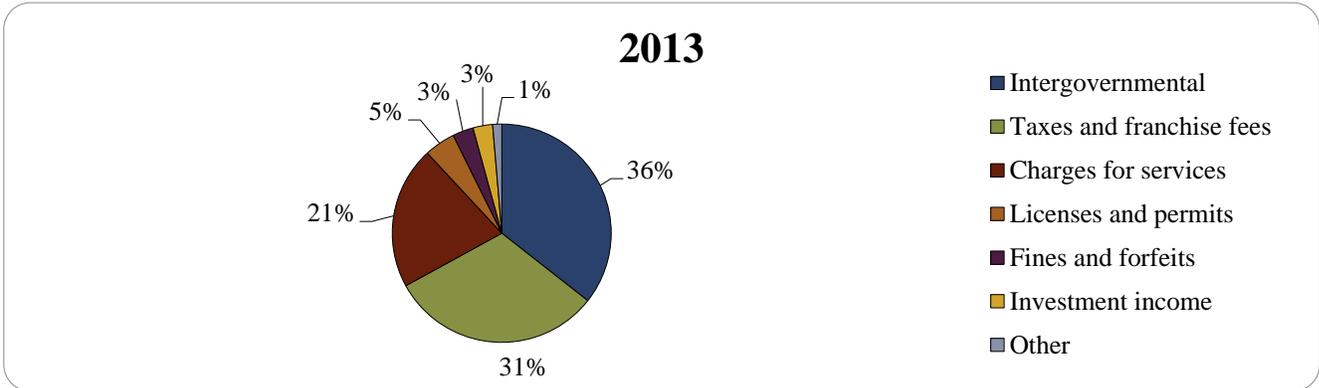
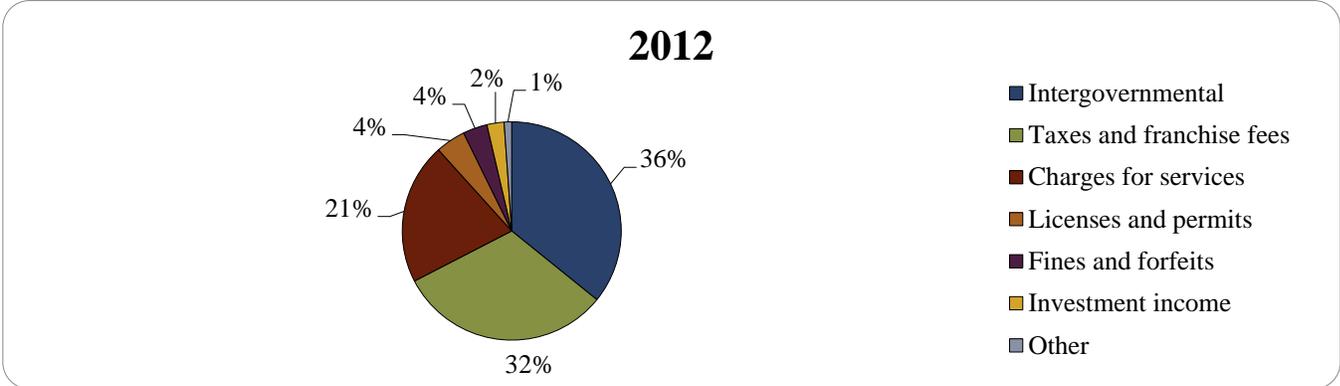


³ Comprehensive Annual Financial Report for the year ended December 31, 2014, page 152

City of Fargo, North Dakota

General Fund Revenues

Years Ended December 31, 2012 through December 31, 2014

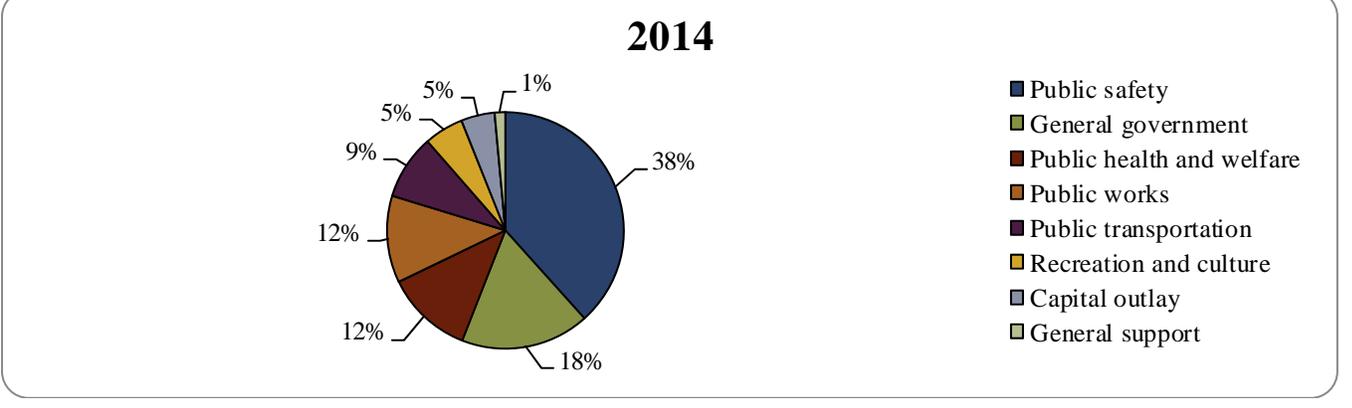
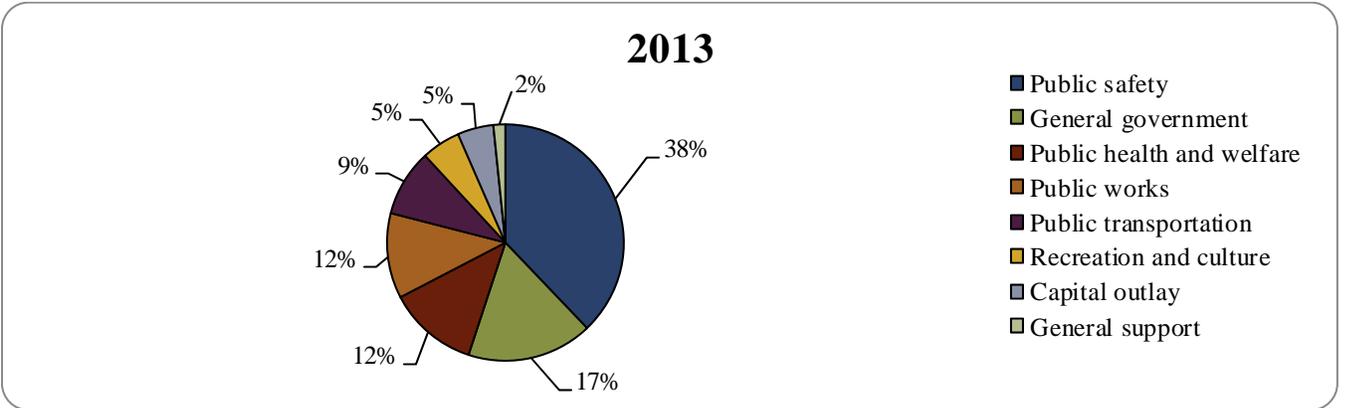
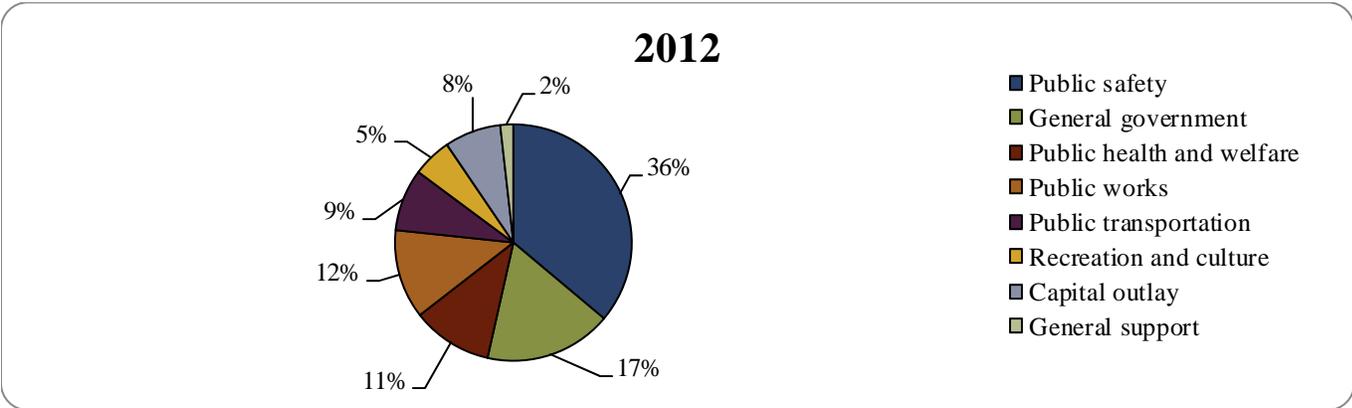


| | Restated | | |
|--------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2013 | 2014 |
| Intergovernmental | \$ 25,967,130 | \$ 28,491,344 | \$ 24,825,032 |
| Taxes and franchise fees | 22,891,472 | 25,117,451 | 26,186,531 |
| Charges for services | 15,171,283 | 16,883,991 | 19,161,378 |
| Licenses and permits | 3,195,162 | 3,672,166 | 7,224,633 |
| Fines and forfeits | 2,617,016 | 2,458,979 | 2,265,238 |
| Investment income | 1,824,198 | 2,320,162 | 2,724,205 |
| Other | 811,917 | 1,067,675 | 907,384 |
| Total | \$ 72,478,178 | \$ 80,011,768 | \$ 83,294,401 |

City of Fargo, North Dakota

General Fund Expenditures

Years Ended December 31, 2012 through December 31, 2014



| | 2012 | 2013 | 2014 |
|---------------------------|----------------------|----------------------|----------------------|
| Public safety | \$ 26,611,782 | \$ 29,191,990 | \$ 31,097,859 |
| General government | 12,839,223 | 13,227,490 | 14,255,796 |
| Public health and welfare | 8,094,587 | 9,487,094 | 9,647,197 |
| Public works | 8,975,046 | 8,989,463 | 9,646,066 |
| Public transportation | 6,256,802 | 7,032,387 | 7,162,185 |
| Recreation and culture | 3,944,312 | 4,095,944 | 4,364,445 |
| Capital outlay | 5,685,818 | 3,785,189 | 3,710,639 |
| General support | 1,305,179 | 1,261,416 | 1,186,071 |
| Total | \$ 73,712,749 | \$ 77,070,973 | \$ 81,070,258 |

City of Fargo, North Dakota
Budget to Actual – General Fund
Year Ended December 31, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|---|------------------------|-----------------------|----------------------|---------------------------------------|
| Revenues | | | | |
| Intergovernmental revenues | \$ 24,622,945 | \$ 25,826,547 | \$ 24,825,032 | \$ (1,001,515) |
| Taxes | 25,528,402 | 25,918,402 | 26,186,531 | 268,129 |
| Charges for services | 16,412,519 | 16,418,144 | 19,161,378 | 2,743,234 |
| Licenses and permits | 4,081,149 | 5,231,149 | 7,224,633 | 1,993,484 |
| Fines and forfeits | 2,741,500 | 2,741,500 | 2,265,238 | (476,262) |
| Investment income | 1,819,500 | 1,819,500 | 2,724,205 | 904,705 |
| Miscellaneous Revenue | 725,985 | 851,657 | 907,384 | 55,727 |
| Total revenues | <u>75,932,000</u> | <u>78,806,899</u> | <u>83,294,401</u> | <u>4,487,502</u> |
| | | | | <i>5.7%</i> |
| | | | | <i>Positive</i> |
| Expenditures | | | | |
| Public safety | 31,393,878 | 32,369,015 | 31,097,859 | 1,271,156 |
| General government | 14,098,390 | 14,249,502 | 14,255,796 | (6,294) |
| Public health and welfare | 9,409,986 | 10,102,232 | 9,647,197 | 455,035 |
| Public works | 9,545,217 | 9,680,194 | 9,646,066 | 34,128 |
| Public transportation | 7,150,031 | 7,166,824 | 7,162,185 | 4,639 |
| Recreation and culture | 4,295,570 | 4,327,664 | 4,364,445 | (36,781) |
| Capital outlay | 6,851,075 | 6,253,404 | 3,710,639 | 2,542,765 |
| General support | 1,100,483 | 955,483 | 1,000,608 | (45,125) |
| Debt Service: | | | | |
| Principal | - | 179,435 | 179,435 | - |
| Interest and fiscal charges | - | 6,028 | 6,028 | - |
| Total expenditures | <u>83,844,630</u> | <u>85,289,781</u> | <u>81,070,258</u> | <u>4,219,523</u> |
| | | | | <i>4.9%</i> |
| | | | | <i>Positive</i> |
| Revenues Over (Under) Expenditures | | | | |
| | (7,912,630) | (6,482,882) | 2,224,143 | 8,707,025 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 8,990,000 | 9,431,183 | 9,744,167 | 312,984 |
| Transfer out | (1,061,000) | (8,211,000) | (8,263,795) | (52,795) |
| Capital lease | - | 244,935 | 244,935 | - |
| Total other financing sources (uses) | <u>7,929,000</u> | <u>1,465,118</u> | <u>1,725,307</u> | <u>260,189</u> |
| Net Change in Fund Balance | <u>\$ 16,370</u> | <u>\$ (5,017,764)</u> | 3,949,450 | <u>\$ 8,967,214</u> |
| Fund Balance - Beginning - as restated | | | <u>33,280,588</u> | |
| Fund Balance - Ending | | | <u>\$ 37,230,038</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

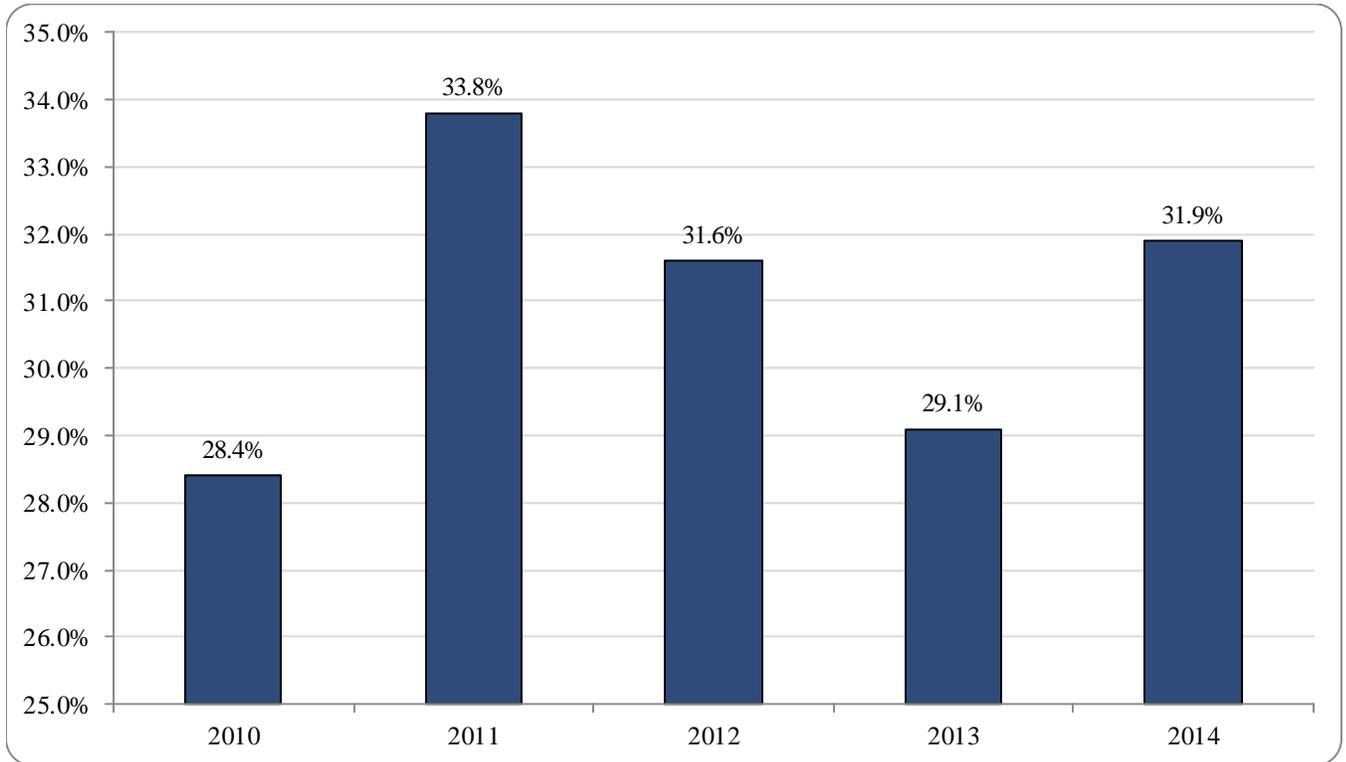
In the General Fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 25 percent of the total current year general fund expenditures.⁵

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

⁵ *City of Fargo 2014 Comprehensive Annual Financial Report*, page 39

NOTE: As of 12/31/11, the City began accounting for fund balance in accordance with GASB 54. As a result of this change, some comparisons in prior year figures may not be consistent.

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:

| 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------|---------------|---------------|---------------|---------------|
| \$ 19,629,816 | \$ 23,450,515 | \$ 23,280,959 | \$ 22,428,922 | \$ 25,881,011 |

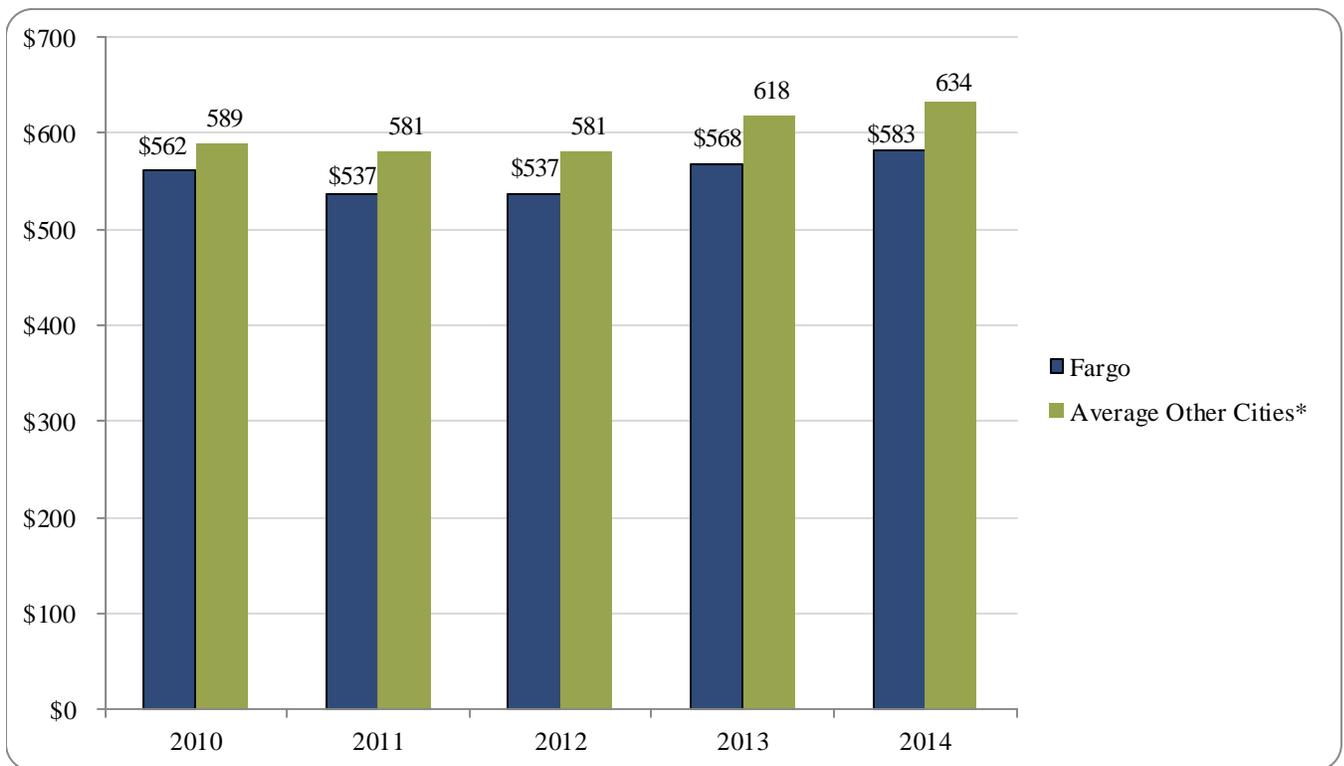
Calculating the operating expenditures of the City’s general fund relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should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

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

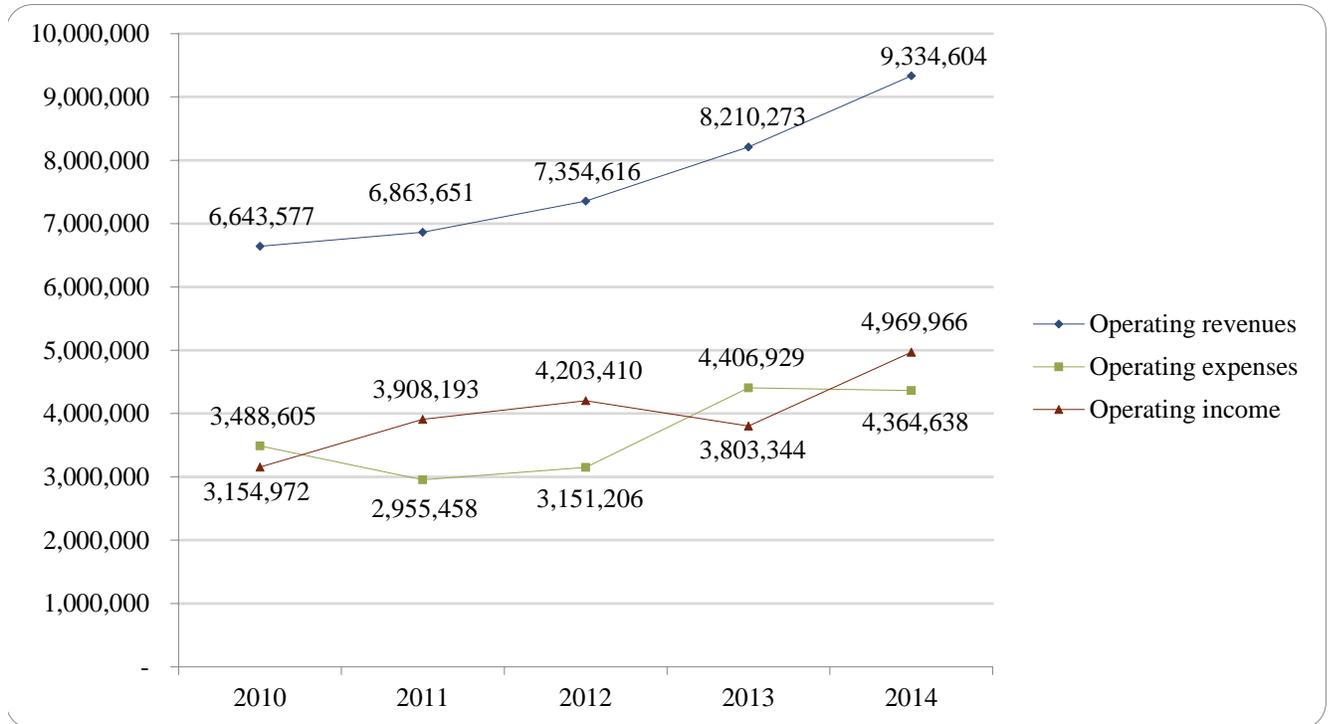
A warning trend would be increasing operating expenditures per capita that are not explainable by inflation or increased services. The operating expenditures per capita in the general fund, adjusted for inflation, are as follows:



Average increase in operating expenditures per capita for the City of Fargo from 2010 – 2014 was 0.75% per year.

*Average Other Cities includes information available within CAFR data on the City of Bismarck, Sioux Falls, Grand Forks, and Minot’s websites.

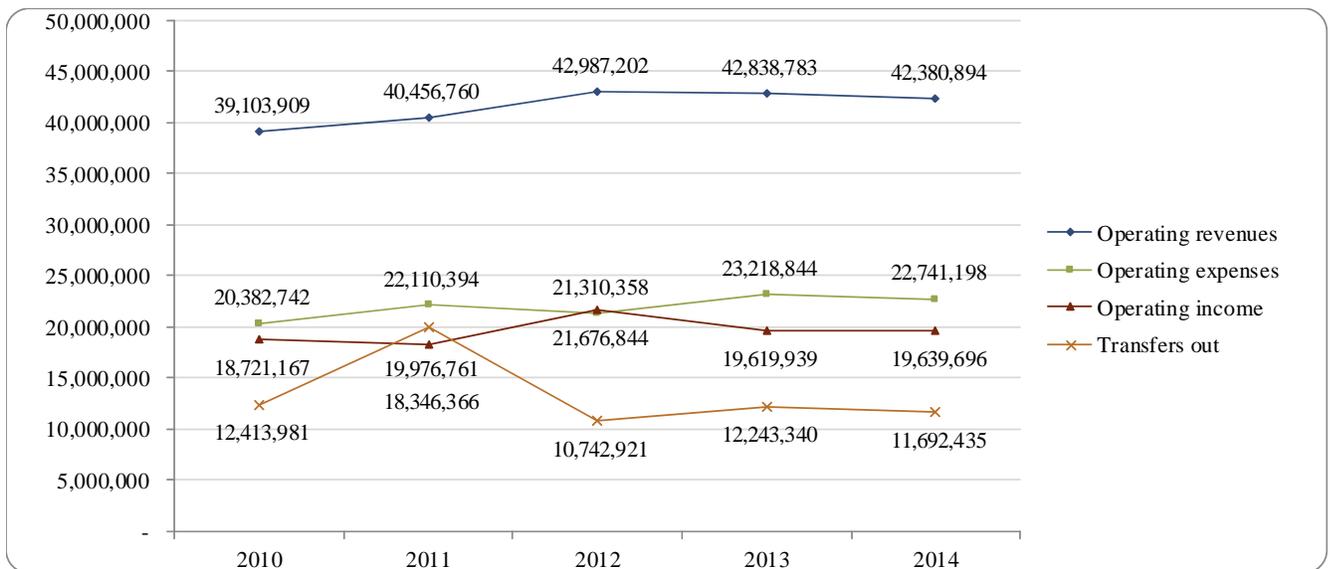
NOTE: As of 12/31/11, the City began accounting for fund balance in accordance with GASB 54. As a result of this change, some comparisons in prior year figures may not be consistent.



Operating revenues consist of charges for services and general property taxes. Average increase in this item from 2010 – 2014 was 8.1% 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 2010 – 2014 was 5.02% 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 2010 – 2014 was 1.68% per year.

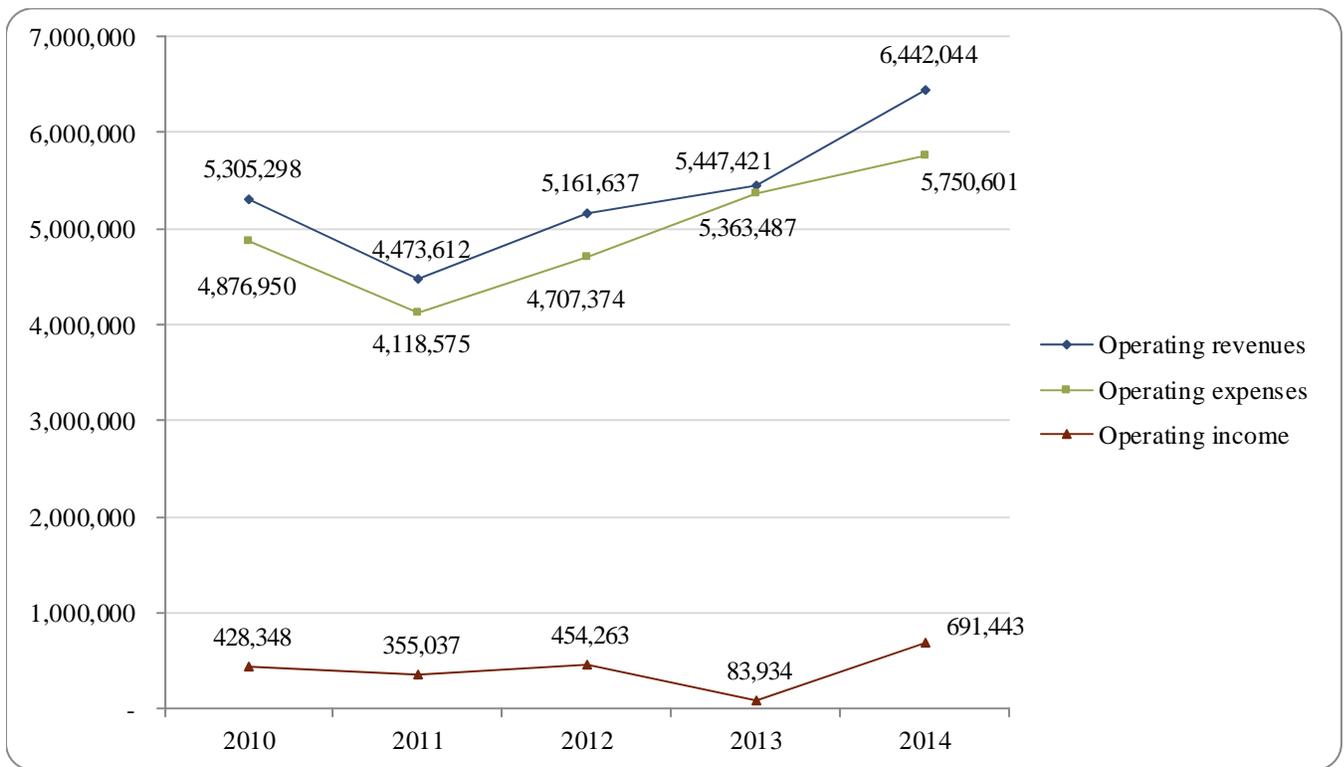
Operating expenses consist of salaries and benefits, materials and supplies, and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2010 – 2014 was 2.31% per year.

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.

During 2011 land in the amount of \$7,273,477 that was previously acquired in the Storm Sewer proprietary fund for flood control projects was transferred to the governmental funds. This was completed to reclassify land that will be used for a governmental purpose.⁶

⁶ City of Fargo 2011 Comprehensive Annual Financial Report, page 45

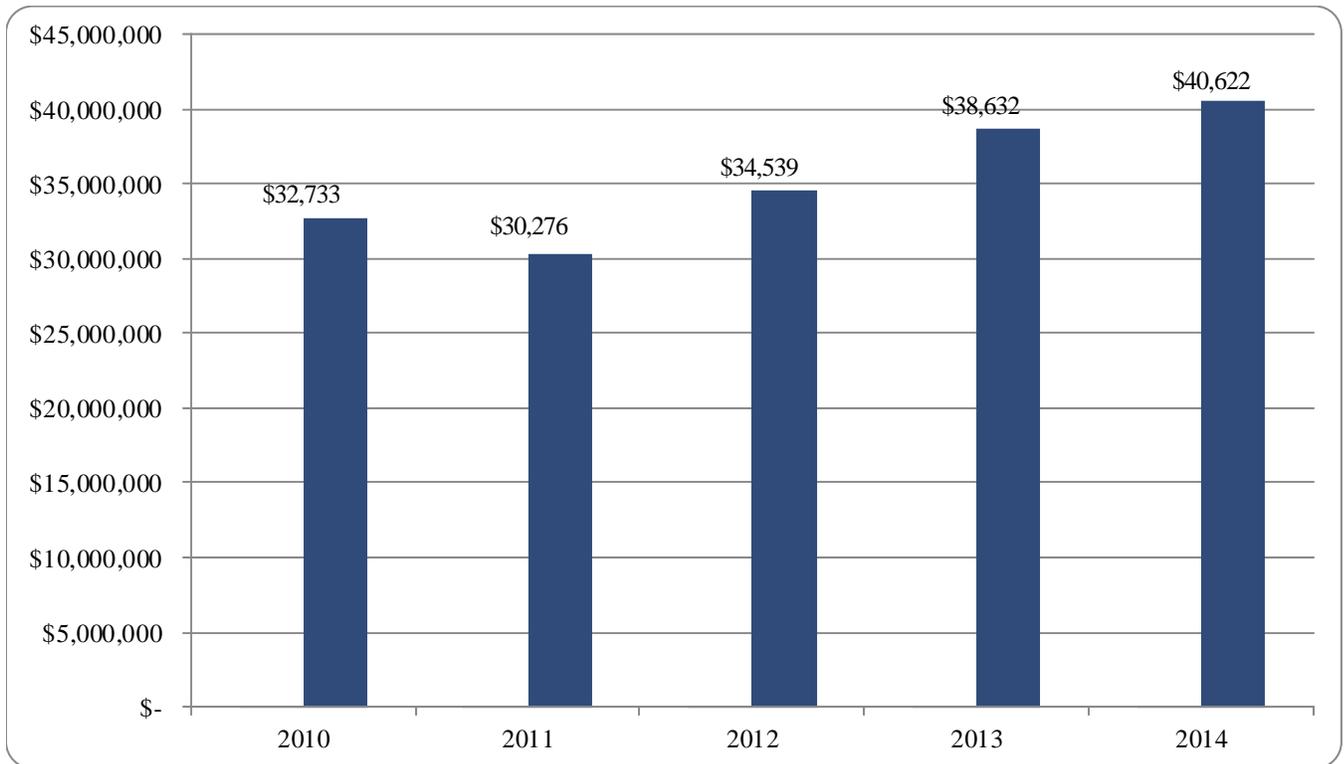


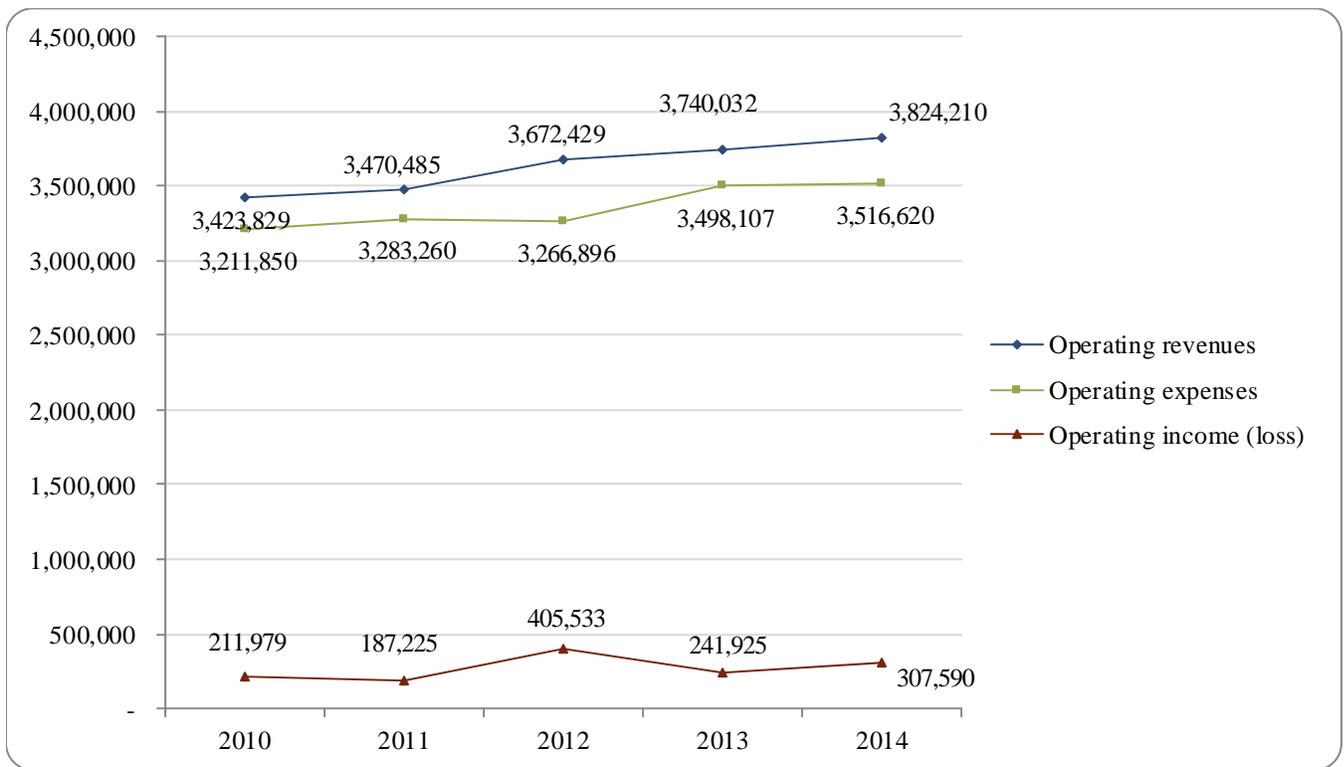
Operating revenues consist of charges for services. Average increase in this item from 2010 – 2014 was 4.29% per year.

Operating expenses consist of salaries and benefits and other miscellaneous expenses. Depreciation is excluded from this amount. Average increase in this item from 2010 – 2014 was 3.58% 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, and Forestry funds and beginning in 2010 the Street Lighting fund.

Operating revenues consist of charges for services. Average increase in this item from 2010 – 2014 was 2.34% 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 2010 – 2014 was 1.9% per year.

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